★ INFLATION AND THE MARKET ★

BUSINESS AND ECONOMICS

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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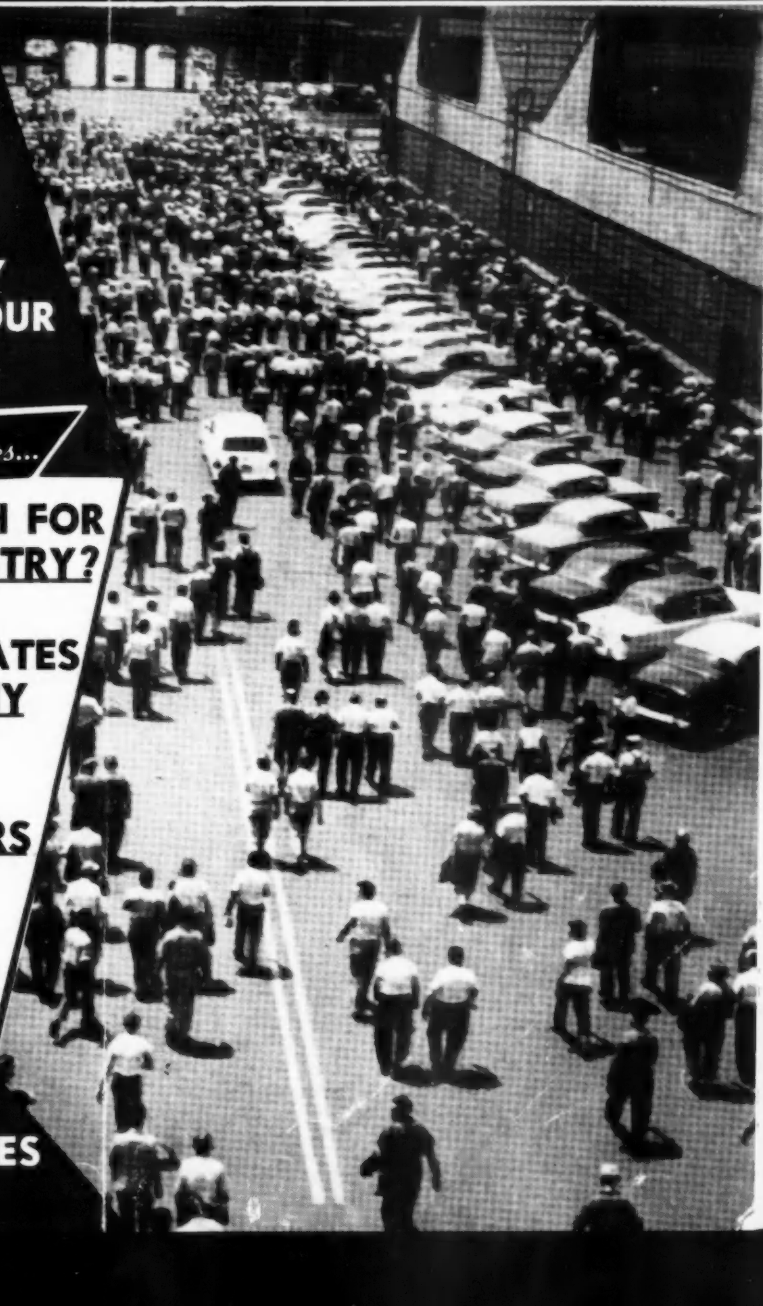
Problem of the 60's—
AUTOMATION . . .
UNEMPLOYMENT . . . and
the ABUNDANT LIFE
By HOWARD NICHOLSON
★
AS PRESIDENT KENNEDY
ACTS TO OVERHAUL OUR
TAX STRUCTURE
By ROBERT B. SHAW

Special Security Features...

WHAT STRENGTH FOR
CONSTRUCTION INDUSTRY?
By JOHN MARCHESI
★
CHANGING INTEREST RATES
and FINANCE COMPANY
EARNINGS FOR 1961
By PAUL J. MAYNARD
★
DISCOUNT MERCHANDISERS
MAKE THE "BIG TIME"
By WARD GATES
★
LPG — BRIGHT SPOT
IN THE OIL PICTURE
By DONALD TROTT

How wrong can you be . . .
ABOUT PROFIT SANCTUARIES
AND TAX HAVENS
By NORMAN A. BAILEY



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CONTENTS

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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

WHAT'S GOING ON? . . . It was an interesting coincidence for the Russian press to declare recently that a "military clique" in the United States was dedicated to war with the Soviet Union, and was ready to defeat any disarmament agreement that might be negotiated with the Russians. An absurdity if ever there was one.

It is very disturbing that this charge came on the heels of a pamphlet entitled "Community of Fear," issued late last fall by the Fund for the Republic, Inc. (affiliated with the Ford Foundation), especially since it was followed currently by another paper, which declared that **if the price for the preservation of our democracy and liberty means communist domination of the world—it is "probable that this price will be paid by the American people"!**

This shocking commentary is the worst assassination of American character that I have seen anywhere. The word "surrender" is not inherent in the thinking of the American people. Does the Fund believe that American courage and stamina have deteriorated so greatly since the founding of our country, when Patrick Henry said "Is life so dear, or peace so sweet, as to be purchased at the price of chains and slavery?"

Our foes had better not count on it, for they will find our colors are Red, White and Blue—not Yellow—and that we are not ready to lick the boots of the Communist commissars as they kick us in the face.

Why do the Russians need a propaganda machine in this country when they can quote the Fund for the Republic to show that prominent sources in the United States back up their vicious propaganda regarding the "war-mongering military clique" and the "degeneracy of our citizens".

We would like to have the Un-American Activities Committee (which we are glad to note has just received a resounding endorsement in Congress and new appropriations) look into the Fund for the Republic, and subject the members of its staff to a close scrutiny to see whether it is they who are weak and scared to death, and not the American people.

We ask this because it is surprising that they do not know appeasement will get us nowhere, for Russia has expressed herself again and again as being determined to

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

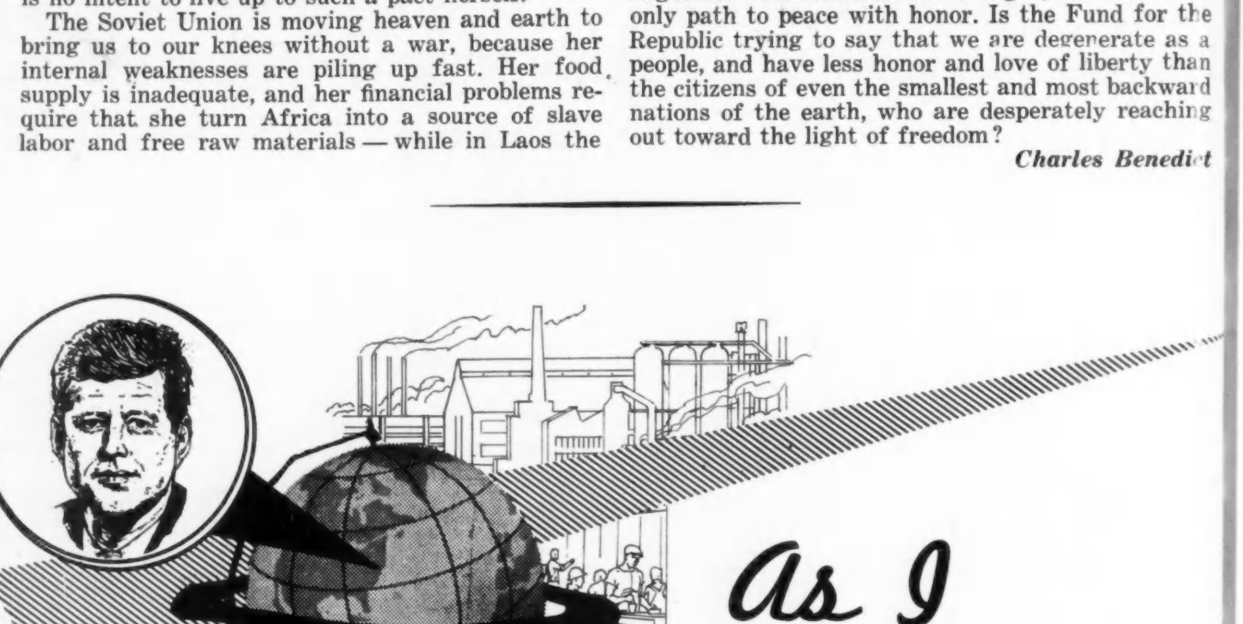
BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 54th Year of Service"* — 1961

rule the world. Naturally she wants to do it the easy way, by subversion and propaganda, and while she seeks the disarmament of the United States there is no intent to live up to such a pact herself.

The Soviet Union is moving heaven and earth to bring us to our knees without a war, because her internal weaknesses are piling up fast. Her food supply is inadequate, and her financial problems require that she turn Africa into a source of slave labor and free raw materials — while in Laos the Russians and their starving Red Chinese comrades are seeking to acquire the rice bowl of the East.

Instead of weakening, this is our opportunity to negotiate with firmness and strength, for that is the only path to peace with honor. Is the Fund for the Republic trying to say that we are degenerate as a people, and have less honor and love of liberty than the citizens of even the smallest and most backward nations of the earth, who are desperately reaching out toward the light of freedom?

Charles Benedict



As I See It!

By John Shore Gaines

ARE WE HEADING FOR MORE FEDERALIZATION AND INFLATION?

TWO great threats to individual freedom which have existed and grown to a disquieting degree since the mid-thirties are increased concentration of power in Washington, D.C., and the menace of inflation. And now, after less than two months of observing the new Administration in action, and weighing each proposed step individually, many thoughtful people are beginning to question with greater and greater frequency whether the trend toward federalization (centralized government) is not now being accelerated.

"Federalization" means decrease in local responsibility and a shift in authority to the national government at the expense of states rights. This is not a new development. As we all know, it has been with us to an ever-growing extent, particularly in the last three decades. In part it seems almost inevitable that big business and big labor unions will breed big central government. **The danger, however, lies in the tendency for the rate of growth of centralized power in Washington to multiply in geometric progression, unless some checks are invoked — some restraint exercised.**

More Power

● In matters of labor, education, business and agriculture, the unmistakable trend and theme of the Kennedy Administration is to increase the emphasis on Federal aid.

● Since those aided inevitably come to lean on the powers that control the purse strings, it is apparent that aid to depressed areas, increased Federal subsidies to education and agriculture, and a greater degree of interference in labor disputes will mean more rapid growth of centralized governmental power.

● The octopus of bureaucracy is ever ready to grow at the least sign of encouragement. In order to keep it within reasonable bounds, it is necessary to actively work to restrain it. It is like a weed which will take over an entire garden unless cultivation is continued uninterruptedly.

Plausible and commendable as may be the motives and aims of such legislation as the Depressed Areas Bill, it may reasonably be questioned whether such a law will not ultimately be more harmful than beneficial.

● In the first place, there is the additional number of bureaucrats necessary to administer the law and hand out the funds.

● Fiscal statistics prove that when taxes are collected from the states and then returned in the form of federally financed projects or assistance — 20% of the money is devoured by administrative

costs. If we are to follow the pay-as-you-go program mentioned by President Kennedy, careful planning should be used to avoid this drain.

● At the same time, what is also of great significance is the weakening of the local sense of responsibility that results in handling these funds wastefully. Inevitably this leads to so-called "temporary" new local levies of one kind or another. The history of such developments is like the emergency sales taxes levied first in depressions or wars, which never have been removed.

● Again, once the federal government assumes responsibility for paying teachers salaries, and subsidizing to a large extent the costs of tuition and school construction, what is the possibility of Washington pulling out? And is it not naive to suppose that control of the purse strings will not eventually weaken or lessen the independence of local school boards? How can the states resist the power of the federal government in matters of education if they are financially dependent upon federal aid in this area?

Serious Inflation

● Just as the price of liberty is eternal vigilance in the field of federal usurpation of the powers and prerogatives of the states, and of the individual, adherence to a sound dollar insures more careful planning, and both actually and psychologically, acts as a deterrent against unrestrained spending programs.

● Even so, political pressures are bound to make it impossible to carry on a soundly balanced program. Note that despite the great resistance to unwise governmental spending exercised by the Eisenhower Administration, we still had a sizable amount of inflation during the 1950's. This emphasizes the need for the greatest care in planning, if inflation is to be kept at a minimum.

● Even with the checks on inflation inherent in the credit restraint policies of the Federal Reserve Board during those years, it was impossible to keep the lid down tight on inflationary forces. There was some leakage. Now that the grip on the lid is being relaxed, is it not possible that the forces of inflation will gain sufficient momentum in any case to blow it sky high when business again moves into the recovery phase of the cycle?

The Inflationary Pressures

● Despite the declared intention of the Kennedy Administration to restrain inflation, all the proposals put forward seem likely to exert further upward pressure on the inflationary spiral.

● Such measures as minimum wage laws, increased social security benefits, and federal expenditures in many other areas all along the line, are adding to the inflation potential, which is always the case when money is pumped into the economy without any offset of production.

It is this tendency and prospect which many observers believe are behind the sharp rise in equity market prices to date in 1961.

Also, similarly, the pressures of inflation are constantly seeking outlets. They are ever-present and ever-threatening, especially in our war-like garrison economy where military expenditures are averaging $40 billion annually, or about half the budget. Unless resistance to the forces of inflation and unwise spending is strong and uninhibited, the battle can be lost.

It is not enough to assume a neutral attitude. In this battle one must be for or against, just as it is necessary to be for or against the forces of freedom in the cold war. To toy with these forces or even to weaken opposition to them without comprehending their potential danger, is to be like a child playing with matches in the presence of inflammables.

And we are not children, but grown people who have found their way through self-reliance, independence and freedom of individual choice — the main elements of strength that have made our country great.

Such simple truths as these need to be kept uppermost in our minds when we are told that we cannot do for ourselves but must look to Washington, D. C. for solutions to our problems.

To date the New Frontier looks amazingly like a rehash of something we had almost 30 years ago under another label called the New Deal. Its basic thesis is that we are in an emergency, this time in both the domestic and foreign fields.

Greater centralization of power in Washington is not the answer. The solution lies in soundly planned collaboration with free people handling their own affairs in the traditional manner. The other way leads to bureaucratic control, which has proved to be so costly and such a failure in the past. Franklin D. Roosevelt's welfare state was the first step in this direction. The labor government in Britain tried it too, and they are now in the process of returning the industries they nationalized by sale of securities to the public.

It seems foolish to learn the hard way when we can profit from so many examples in the various countries that have tried centralized government.

END

Inflation And The Market

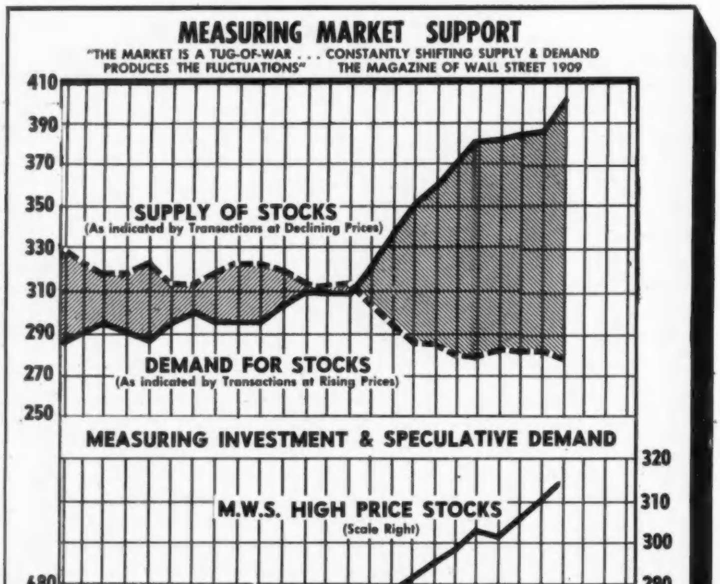
Despite indications of a weakening technical position, average stock prices have risen further under industrial leadership in a mixed market. A slow turn in business might be near but has been largely discounted. The case is stronger for retention of satisfactory holdings than for new buying.

By A. T. MILLER

In the heaviest trading activity in some years, overall price tendencies remained upward over the last fortnight. The Dow industrial average finally made up much of its prior lag behind the general market, rising materially above last June's interim rally top of 656.42. It closed last week at 671.57, up about 20 points, or 3%, during the period.

That leaves only about 14 points, or little over 2%, to reach the early-January, 1960, all-time high. However, the last few yards on an uphill struggle are usually the hardest. It *is* a struggle, with the February gain considerably the smallest for any full month since the rise started late last October, and less dynamic than expansion in turnover.

After only a few trading days in the new month, it is conjectural whether the March performance will be materially better or worse than February's. Since the market has run so far ahead of anticipated business recovery, and since an increased number of stocks appear either weak or tired, it remains hard to believe that some degree of correction can be deferred for any great additional time.



The rail average remains slightly under last June's rally level. The gain on the fortnight was fractional and the best level, shaded in the final session, was also only a fraction above the mark reached over six weeks earlier in mid-January. The previously steady rise in utilities has slowed, but last week's small gain sufficed to take the average to another new high for the post-war period.

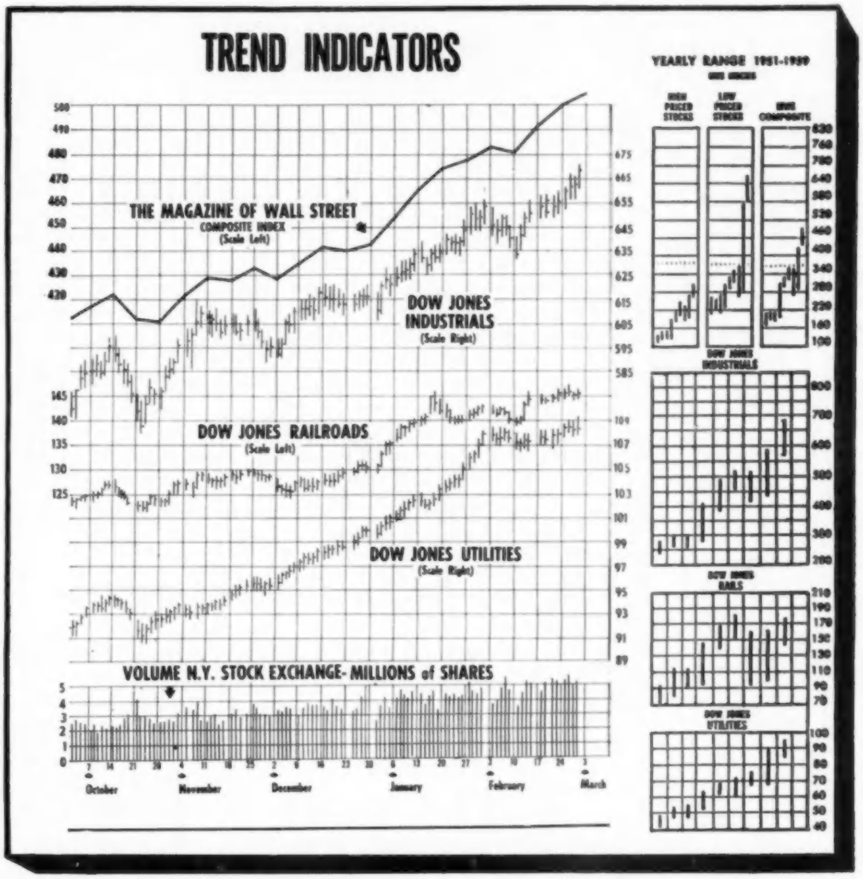
Some Technical Considerations

Brokers note that day-to-day variations in volume are "favorable", with turnover expanding on strength in prices. But that is generally so when to most people the market "looks good." To take this alleged indication as prophetic is akin to saying the weather will be fair until it rains.

There are some sub-surface indications of deterioration in the position and they require watching. Last week, for example, while the Industrial average rose on volume in a publicized upside break-through, advances in individual stocks exceeded declines by a ratio of less than 8 to 5, compared with better than 2 to 1 in the prior week. At this level, of course, the daily new highs continue predominant in numbers and new lows are very rare. But here, too, there is tentative evidence of a change. The maximum number of daily new highs so far on this advance was seen

on February 9 at 147. At a higher market level last week, the largest number was 132 on Tuesday. At still higher levels for the average, it was 82 on Wednesday, 90 on Thursday and 112 on Friday — in which session 552 stocks were up, 500 down, in the closest balance in some time.

The rise of about 105 points, or 18.6%, by the industrial average in about 18 weeks, has been unusually large and rapid; the recent trading volume has been unusually large as judged by postwar standards; and the favorable supply-demand balance shown by our Market Support measures is abnormally wide. It is axiomatic to say that the unusual does not continue. Otherwise, it would not be unusual — and the stock market would not be back on the front pages of the newspapers. But while price-earnings ratios are extreme, we do not say they cannot become more so under contagious speculative enthusiasm.



Of course, published statements referring to trading volume as at a faster pace than in 1929 — culminating year of "the great nonsense" — are misleading. Due to splits, stock dividends, equity financing and listing of stocks of many newcomers, total shares on the Big Board are almost six times greater in number than was so in 1929. Relative to listings, turnover to date in 1961 has been at an annual rate of roughly 17% compared with nearly 100% in 1929 as a whole.

Optimism may be, and probably is, excessive; but this is not another 1929 — in which there was a rampant speculation on low margins; a strained and weak banking position; and, in the economy, a structural vulnerability to depressions now largely eliminated by built-in cushions and by the reduced importance of hard goods relative to consumer demand for services and soft goods.

Allure Of The "Fast Buck"

In the stock market there is a continuing supply-demand imbalance because investors holding advantageous positions are reluctant to sell and share their profits with the tax collectors, while accumulating cash seeks employment and the great majority of owners thereof are unwilling to go into fixed-income securities. This is a familiar story, now different in degree because an increased number of people have the "market itch."

People have been buying on hopes of an early start on recovery in business activity and company earnings, and also because of alleged fear of inflation—but mostly, as always, simply on the hope of making money in a rising market. More people than in some time want tips on stocks that might go up soon and fast, fewer ask what are some better-than-average investment values.

So today there is more inflation in the stock market itself than anywhere else—more inflation in stock prices than in the Kennedy budget and spending proposals, more than in the Consumer Price index, more than in the broad wholesale price index. While brokers talk inflation, businessmen are in no hurry to stock up on materials or goods. Prices of some materials have firmed slightly on expectation of better demand ahead, but this is quite normal.

With much slack now in the economy, a budget deficit on the order of $5-$6 billion in the coming fiscal year can hardly of itself produce price inflation. When the slack is partly taken up—mainly by growth in the public sector—the realities of our world position will argue cogently for prudence in fiscal policy.

There are some tentative indications that the recession is around or near a flat bottom. The rate of factory inventory liquidation has slowed. Home starts have improved slightly from a low level. Department store sales have responded mildly to better weather. We continue to think the recovery may well be sluggish for some time ahead. On that premise, many stocks are to high.—Monday, March 6.

Problem of the 60's...

AUTOMATION... UNEMPLOYMENT and the ABUNDANT LIFE

By HOWARD NICHOLSON

- **Advances and benefits of automation — its problems both for labor and industry**
- **Legitimate and phony research — when everybody gets into the act through multiple industrial operations — the accelerated sales pitch**
- **Putting the unemployed to work — various avenues for productive employment and profitable operation now**

THE United States, on the evidence of the official data on the working force and available employment opportunities, faces the distinct possibility of high level unemployment for a long time to come.

To be sure, the current total of approximately 5½ million unemployed will dwindle considerably with the coming warmer weather, the seasonal opening up of out-of-doors working opportunities, and as the current business recession gives way to a fresh business upturn.

But warmer weather and business recovery will not solve the basic problem of unemployment. In recent years, we have witnessed the seeming paradox of a rising trend in unemployment even while business activity and employment were trending upward.

The next business recession, when it comes, will be accompanied in all probability by even higher levels of unemployment than those recorded in the current setback. And each succeeding down-swing in the business cycle is quite likely to witness ever higher rates of joblessness.

Problem of the 1960s

One of the major domestic problems of the current decade thus well may be fairly high chronic

unemployment. Even in good times, the number of unemployed may still be as large as during the recession periods of the 1950s.

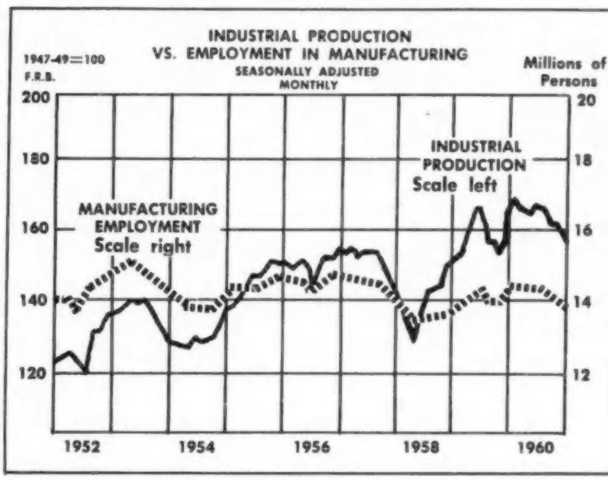
As a nation engaged in a life or death struggle for survival with the Communist philosophy of life, the United States simply cannot afford to be stigmatized by chronic, high-level unemployment. For such conditions are fertile soil for the development of alien economic philosophies. Our international prestige is also certain to suffer if unemployment mounts to unwieldy proportions.

And purely as a domestic political question, large scale unemployment is dynamite. No administration in Washington, whether conservative or liberal, can ignore it. Unfortunately, the easy way out always beckons, and it is not particularly surprising that there is substantial support for "creeping inflation" to stimulate economic growth and hold down the upward trend in unemployment.

Men and Machines

Ever since the beginning of the Industrial Revolution about two centuries ago, we have heard criticism of the displacement of manpower by machinery. The critics have ignored the fact that, over the long run, mechanization of industrial processes has enabled even those who were temporarily displaced to enjoy richer, fuller lives.

Now, however, with the development of electronics and the completely automatic plant, i.e., the application of "automation", distinct evidence suggests that machinery may be displacing manpower more rapidly than is socially desirable. In 1953, for example, employment in manufacturing, including both production and non-production departments, averaged 17.2 million. The comparable figure for 1960, a year of substantially larger output, was 16.3 million, down 5%.



To minimize the harsh effects of this decline, it has become somewhat fashionable in business and economic circles to assert that other industries, often lumped together as "service industries", are increasing in importance so rapidly, offering unlimited work opportunities, that declining employment opportunities in manufacturing can be disregarded. But like so many generalizations this is only a partial truth. As compared with 8 or 10 years ago, the number of employes in the so-called service industries has indeed risen considerably. Such comparisons, however, tend to obscure the fact that the pace of the rise has slackened appreciably during the past few years. In some areas, such as transportation and public utilities, the number employed has even declined in recent years. In other areas, the number has held practically unchanged over an extended period.

Only in government—federal, state, and local—is the uptrend in employment still strong. As communities have expanded, more teachers, firemen, policemen, refuse collectors, and so on are needed. Although everyone decries the steady rise in the number of government employes and the necessitous heavy taxation yet almost all of us are constantly demanding more and more public services. The businessman wants more and better statistics. Parents want more and better teachers for their children. Home owners want more police and fire protection. And so on.

More Work — Fewer People

Automation, the application of the electronic principle to repetitive operations, is not confined to manufacturing. Even in areas such as banking and insurance, where little or no union organization is found and where upward pressure on wage rates is correspondingly reduced, machines are rapidly taking over much of the bookkeeping. Within a few years most of the work that now is done by clerical workers will become machine operations, if present trends continue. In some instances, methods rather than machinery are displacing employes. Retail trade is a particular case in point. Originally confined to the large chain grocery stores, "self service" has expanded into many other retail lines, even including variety stores.

To be sure, the rapidly expanding electronics industries themselves have accounted for substantial increases in employment but not nearly in the same degree as the displacement resulting from their products. Everywhere one turns, one can see employee elimination, in vending machines, self-service elevators, coast-to-coast telephone dialing, and other areas too numerous to mention.

Pluses and Minuses

It would be perfectly ridiculous to make a blanket condemnation of automation in industry, of the multiple uses of the electronic principle in numerous commercial enterprises, or of self service throughout the retail field.

In economics and statistics, and throughout the sciences, the electronic computer is enabling us to solve complicated problems that previously were incapable of solution because of the prohibitive amount of time involved. As a result, we are gaining valuable increased knowledge. Further; automation in industry is freeing Man from the stultifying repetitiveness of innumerable factory operations. In numerous areas of retailing, self service is so "natural" that it is almost incredible that it was not introduced long ago. Theoretically, the utilization of machinery to eliminate human drudgery promises everyone a richer and more abundant life. And, in a general way, no one can quarrel with the

thesis that the machine is a great help to men.

However, the rising tide of unemployment, threatening to become increasingly serious with the passage of time, raises the question of whether science and the application of scientific methods to practically all lines of business endeavor may not be progressing more rapidly than our ability to cope with it.

If Business Won't

This is a matter, we feel, for serious consideration by both business men and investors.

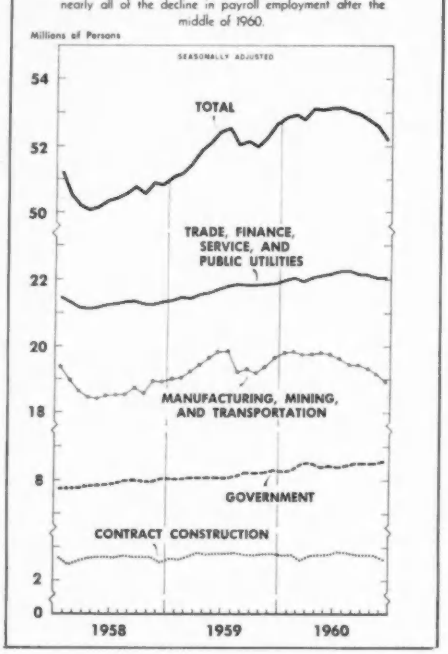
If the rising trend of unemployment persists, and there is every indication that it will for some years to come, the Federal Government is virtually certain to move in on the situation in a big way.

And, if this occurs, one can be almost positive that the methods adopted by Washington will be highly distasteful to the business community and, quite possibly, destructive of profits.

***The new Secretary of Labor,* Arthur Goldberg, who is naturally sensitive to this problem, has proposed a new government office to study automation. Federal measures mentioned — ● include the retraining of displaced labor, — ● inducements to new businesses to move into depressed areas as, for example, the anthracite coal district, ● subsidies for the relocation of families in distressed communities and, ● most broadly the general encouragement of business expansion, be that as it may.**

The recommendations emanating from the Labor Conference in Miami consists of a shorter work week, various share-the-work proposals, and protective provisions that clearly reach the "featherbedding" stage.

For the next four years and possibly for the next eight years, whether we like it or not, much of the concentration in Washington will be on the "little people" of this country rather than the "big people". Under these circumstances, it behooves businessmen to know how Washington is thinking and to keep several jumps ahead.



EMPLOYMENT in NONAGRICULTURAL ESTABLISHMENTS

Manufacturing, mining, and transportation accounted for nearly all of the decline in payroll employment after the middle of 1960.

Automation Not Always An Unmixed Blessing For Industry, Either

The application of automation to a manufacturing process, by reason of the huge costs, has tended to introduce a high degree of rigidity of product. In our issue of May 24, 1958, our story, "Where Automation Has Fallen Short of Great Expectations" called attention to the numerous cases where the huge cost of automation was found to be impractical in this age of product evolution.

When public tastes change, as they did several years ago for automobiles, it is extremely difficult for an "automated" manufacturer to switch with any real degree of rapidity to a new product more in line with changing public demand.

Weighed down with a huge investment in equipment and all too inclined to listen to the mumbo-jumbo of the "marketing experts", the automated manufacturer tends to adhere to the production of what fundamentally is the same product.

A "new" product may be created, however, by the application of a little chromium plating here, by a change in the non-functioning part of the product, or by the introduction of a new color scheme. Advertising expenditures may also be stepped up in an effort to convince the public that this is indeed a new product, rendering obsolete all previous products.

These techniques are now proving less effective, however, in moving products in line with the capacity to produce them. A large part of the consuming public appears to have become "wise" to the fact that a change in the superficial appearance of a product does not actually make it new. The startling decline in consumer demand for various types of durable goods in particular, attests to this new high degree of consumer sophistication. The explanation that consumers have adopted new "status symbols" is not entirely convincing. While that may be true for some segments of the public, consumers certainly want new products that really are new.

Misplaced "Research"

Industry is spending tremendous sums on "research". It would be most illuminating to know how much of this money is being spent for the development of genuinely new products and how much to create "obsolescence" of products already in the hands of consumers.

Some companies, once widely known for the high quality of their products, have slipped badly in recent years. Although they still may assert in their advertising that their products are famous for high quality, much of the public is aware through word of mouth from one consumer to another that a particular television set for example is subject to frequent breakdowns and an untimely demise. Or that the plastic lining of a certain refrigerator is made of a material that never was intended for such use and literally falls apart when subjected to the low temperatures of normal refrigerator use. And so on. Eventually, this deterioration in quality comes home to roost in the form of declining sales volume and unprofitable operations.

The application of scientific processes to production should be able to give us more rather than less of the better things in life. We must learn how to control these processes rather than permit them to control us. We should never permit the instruments of progress to *(Please turn to page 680)*

Revolution in Retailing...

DISCOUNT MERCHANDISERS MAKE THE "BIG TIME"

By WARD GATES

- **Unorthodox discount houses become successful competitors to the conventional merchandisers**
- **Low margins — quick turnover — and volume — pay off . . . but continuous pressure for opening new stores to maintain earnings growth —at what point saturation?**
- **Appraising companies in the field — newcomers — and those adapting operations to meet competition . . . where battle is still to be won**

IN the space age it is our tendency to look for the most significant innovations in technological fields. Yet, revolutionary developments in more prosaic areas of the business world are an ever recurring process on the American scene. At the moment radical methods of retail merchandising are causing a particular stir—and although the verdict is not in yet, **the spawning of low-profit-margin-high-turnover retail stores all over the country has all the earmarks of a new revolution in the making.**

Revolutions in retailing methods are not new, of course. The zoom of supermarkets to prominence in the brief period since the end of World War II has literally changed the entire character of the food processing and distributing industries, to say nothing of the havoc wrought upon the corner grocer and the independent butcher shop. Whether the effects of the new type of self-service-discount-department-store will be equally far-reaching, is hard to say at this stage of the game. But this method of distribution is grabbing off more and more of the consumer's dollar each year, and in many big cities the new stores are pushing conventional merchandisers to the wall.

● **For investors, the discount operation poses two separate problems. First, how seriously can the new trend affect the earnings prospects of such major department store chains as Macy's, May Department Stores and Federated; and second, what kind of investment opportunities are offered by the new operations?**

Answering both questions requires a brief investi-

gation of how and why the new merchandising techniques developed.

Clandestine Beginnings

Discounting, or low-profit-margin-retailing-operations, are not completely new, of course. In New York, stores such as S. Klein's and J. W. Mays have been successful low-priced soft goods merchandisers for many years. But it is only in the last decade that appliances and other hard goods have moved into the hands of discounters.

The reasons are fairly complex, but they can be unraveled. The first step in the chain was the attempt by manufacturers to maintain "Fair Trade" pricing on their products. With any given product carrying the same price tag in all stores (a price that usually represented a 30 to 35% markup), the way was open for enterprising operators to undercut the conventional merchandisers if they could find an entering wedge. They soon thought of the "membership card" gimmick which enabled the discount merchandiser to break the fair trade price because theoretically he was not selling to the general public but just to a select group of members of the club.

At first these "clubs" existed in lofts and warehouses, in which they did a purely cash-and-carry business. Frequently it was difficult for them to buy their goods directly from manufacturers, but they usually had no trouble in keeping themselves well-stocked by buying out the inventories of collapsing businesses, or taking appliances off the hands of over-stocked and under-financed warehouses.

They Become Respectable

At first operations of this type were confined to the cities, but as suburbia began to sprawl all over the countryside, the discounters found that space was cheap along the major outlying highways, and they saw enormous vistas opening up for them.

At about the same time the Supreme Court broke the Fair Trade pattern and allowed the merchants to drop the "club" facade and operate openly as sellers of discounted merchandise. Their initial success was enormous. Stores proliferated as volume soared, for several reasons. For one, they were handily located. Secondly, their low overhead, strictly cash-and-carry-operation allowed them to sell more cheaply than the department stores, even when they bought directly from the manufacturers. And third, they elected to key their profitability to high volume, so they quickly cut their markups to around 15% to 18%, or about half of what the department stores found necessary.

Interestingly enough, as the populace became saturated with hard goods, the discount operations began to find the sledding tougher. At this stage they might have folded up and have been remembered as just another passing fad. But instead of vanishing from the scene they moved into soft goods, setting up their operations on a serve-yourself, supermarket basis which catapulted them quickly into the big time as unorthodox but highly successful competitors of the major department stores.

Companies Partially Or Substantially Engaged In Special Discount Merchandising

	Net Sales 1957	Net Sales 1958	Net Sales 1959	Net Sales 1960	Net Earnings Per Share 1957	Net Earnings Per Share 1958	Net Earnings Per Share 1959	Net Earnings Per Share 1960	Recent Price	Indic. Current Div.*	Div. Yield %
NEW YORK STOCK EXCHANGE											
Diana Stores Corp.	$36.5[1]	$35.6[1]	$39.0[1]	$50.8[1]	$1.64[1]	$1.31[1]	$1.46[1]	$1.23[1]	16	$1.00	6.2%
Grand Union Company	427.8	503.7	603.4	445.5[4]	1.70	1.58	2.12	1.80[3]	30	.60	2.0
Grayson-Robinson Stores	41.4	42.1	56.4[1]	64.0[1]	.97	.78	1.10[1]	.66[1]	11	13	—
Interstate Department Stores	66.6	65.6	90.3	72.4[5]	3.31	2.06	4.11	4.50[3]	71	1.20[14]	1.6
Korvette (E. J.), Inc.	71.0[1]	105.7[1]	114.8[1]	157.5[1]	1.05[1]	.68[1]	1.61[1]	2.23[1]	48	—	—
Lerner Stores Corp.	179.5	179.3	188.9	137.2[5]	2.15	1.54	2.16	2.50[3]	32	1.40	4.3
May's (J. W.), Inc.	50.1[1]	50.5[1]	54.5[1]	69.2[1]	1.13[1]	1.28[1]	1.65[1]	1.75[1]	35	.80	2.2
Spartans Industries, Inc.	24.5	29.9	39.1	29.7[4]	.86	.84	1.50	1.60[3]	33	.80	2.4
AMERICAN STOCK EXCHANGE											
Blauner's	25.3	23.5	21.2	7.3[2]	d.31	d4.43	d5.73	—	3	—	—
Davega Stores Corp.	20.7	19.2	18.3	6.9[6]	d.72	d1.64	d.09	—	20	—	—
Dilbert's Quality Supermarkets	26.5	47.9	61.5	30.9[2]	.56	.40	.40	—	9	—	—
Fishman (M. H.) Co., Inc.	15.9	15.6	17.0	20.4	1.42	1.32	1.56	—	13	.70	5.3
Friendly Frost, Inc.	15.8	18.0	24.6	N.A.	.12	.25	.64	.70[3]	14	—	—
Holly Stores	12.8	13.2	15.2	16.2[3]	.26	.05	.28	.30[3]	8	—	—
Klein (S.) Department Stores	86.0	84.7	91.4[1]	114.1[1]	1.67[1]	1.41[1]	1.51[1]	1.39[1]	17	.75[4]	4.3
Mangel Stores Corp.	39.5	42.6	54.3	62.8[7]	1.76	2.06	2.37	1.75[3]	38	1.20	3.1
National Bellas Hess, Inc.	46.5	45.0	47.1[1]	48.9[1]	.50[1]	.21[1]	.38[1]	.46[1]	10	.35	3.5
Stop & Shop, Inc.	152.3[8]	170.6[8]	194.0[8]	239.0[8]	.79[8]	1.06[8]	1.30[8]	1.64[8]	48	.40	8.3
Vornado, Inc.	22.2[9]	30.6[9]	40.4[9]	58.1[9]	1.09[9]	1.19[9]	1.23[9]	.99[9]	18	.13[14]	.7
UNLISTED											
Bargain City, U.S.A., Inc. [11]	—	—	3.1	N.A.	—	—	.23[10]	2.16	6	.05[14]	8.3
Goldblatt Brothers, Inc. †	114.6	114.7	107.9	47.1[12]	1.01	.97	1.43	d.37[12]	14	.60	4.2
Virginia Dare Stores Corp.	17.3[1]	22.6[1]	37.2[1]	44.5[1]	1.56[1]	1.76[1]	2.94[1]	3.00[1]	45	15	—

d—Deficit.
N.A.—Not available.
*—Based on latest dividend rate.
†—Listed on Mid-West Stock Exchange.

1—Years ended July 31.
2—1st 6 months.
3—Estimated.
4—39 weeks.
5—9 months.
6—4 months ended June 30.
7—48 weeks.
8—Year ended June 30.
9—Year ended August 31.
10—11 months.
11—Blauner's has 50% interest.
12—24 weeks.
13—Paid 5% stock in 1960.
14—Plus stock.
15—Paid 6% stock in 1960.

How Do They Do It?

Even at this stage the temptation still persists to brush off the success of the discounters as transitory and to brand them as purveyors of inferior merchandise. Undoubtedly some inferior goods have been passed off on a bargain-seeking public, but the evidence indicates that these are isolated cases. In fact, the success of the new distribution method can be traced to extremely good and productive business practices that take maximum advantage of consumer psychology and the chinks in the armor of conventional stores.

People like bargains—or at least like to think they are getting a bargain. This one factor alone would explain much of the success. But beyond this the department stores have sometimes fallen down in their main task of providing real service to their customers. **Salesmen are no longer the experts they once were, but merely order takers. Moreover they are not as ever-present as they once were, so that long waits for service are not unusual in many department stores. Customers, therefore, hesitate to pay premiums for services they are not getting, when the same goods are available cheaper elsewhere. The installing of credit operations in most of the discount stores removed the last major hold the conventional stores had on their customers.**

How can the discounter make money? The answer is volume and rigid control of expenses. Cost control amounts to a fetish and a lucrative one, which has led to some unorthodox but highly significant results that cannot be duplicated by conventional merchandisers. The best example, and an astute business practice, is the following: Most merchandisers order goods and make payment in from 60 to 120 days. Usually they finance these purchases through bank loans, since the goods will remain on the shelves longer than three or four months. Not so the discounters. Their high volume leads to inventory turnover as much as fifteen times a year, so that very often the goods are completely sold on a cash basis before the store's bill from the manufacturer comes due. As a result inventory loans are kept to a minimum, and other working capital requirements are small. In effect, the customers pay for the inventory directly.

How Big is the Field?

From the point of view of the conventional retailers the question is not so much, how big is the discount field—but rather, how big will it become? Today there are over 500 major discount department stores around the country doing almost $2 billion worth of business. Another 2000 or so smaller stores are realizing about the same volume. The total of $4 billion is equal as yet to only about 30% of all department store sales, but the more significant point is that the present $4 billion is *double* the volume of only two years earlier. Such an enormous growth rate obviously can't continue, but it also cannot be ignored.

As a matter of fact, many conventional retailers are actually joining the parade. **Mangel Stores, Grayson-Robinson** and **Virginia Dare** have all either made the complete swing to discount operations, or have opened up discount stores in addition to their conventional operations. Others are planning to enter the field over the next year and it is a safe bet that before long still other major companies will follow suit. They appear to have no choice, unless they try to gear their operations to a strictly high-quality, outstanding service motif. Some stores are doing this, of course, and successfully, but this usually means the abandonment of high volume consumer items.

Interestingly, it is not just the department stores that are coming into the field. Manufacturers, such as **Spartans Industries** are opening their own stores; **Alden's**, the catalog house, recently purchased Shopper's World, a small discount chain; and even **Grand Union** has entered the field as an adjunct to its supermarket operations. **Kroger's**, too, is tied in with a discount house, and other supermarket chains are seeking to purchase existing stores.

The Companies and Their Potential

The scope of operations and the rapidity with which newcomers are entering discounting indicates that the pattern of future retailing has probably already been set. The revolution isn't somewhere off in the future; it is here now. The big, well-entrenched department stores will have their work cut out for them in maintaining their positions. What are the prospects, however, for the newcomers?

E. J. Korvette is the biggest so far, and also appears to have been the leader in new techniques. It was among the first to jump from hard goods into soft goods; among the first to convert to a supermarket-type operation; and probably the first to enter the proprietary drug field on a large scale. The company's huge volume enables it to purchase from major manufacturers in sufficient quantities

to gain important cost advantages. In addition, the manufacturers are willing to sell at even lower prices provided the store resells the goods under its own label. This concession illustrates one of the side effects. Manufacturers are now gearing their operations toward the discounter, and are happy with the higher volume that enables them to use their capacity more fully.

Korvette had a trying period after the hard goods boom receded, but has since enjoyed a strong comeback and now shows an extraordinary rate of growth. Sales in 1950 were about $200 million. Last year they were $114 million and will probably run 15% higher in 1961. Moreover profits have expanded in about the same proportion.

The trick for Korvette, and all the other fast growing chains, is to keep opening new stores. The profit potential of any single store is limited and reaches its peak in a fairly short period of time. Hence, in order for profits to grow rapidly, new outlets must continually be opened. This year Korvette will open four new stores, and at least that many more will probably follow in 1962.

Because of the capital needs for new store construction Korvette pays no dividend despite earnings that should top $2.50 a share in 1961. Shareholders have been rewarded, however, by the enormous rise in the price of the stock, which doubled over the last year. Conservative investors must be content to watch Korvette from the sidelines, but its progress has been exceptional.

Vornado—Operating stores in the Greater New York area under the catchy name "2 Guys From Harrison", this company was for several years the fastest growing operation in the area, until several fires interrupted the trend a few years ago. Nevertheless, the growth record remains impressive, with sales of over $75 million in 1959 compared with less than $7 million in 1950.

The fire set-back was partly recouped when, in 1959, Vornado merged with A. O. Sutton, a manufacturer of air conditioning equipment which brought in not only manufacturing facilities but also an $8 million tax loss carry-forward. With $8 million of earnings now sheltered from taxes, the company has been able to expand its operation even more aggressively. As a result, 1960 sales climbed over the $100 million mark. Earnings failed to keep pace, but better results are likely in 1961.

Converting from the Old to the New

Interstate Department Stores, a long-time operator of conventional department outlets, is attempting to bridge the gap between the old and the new by opening its own discount stores. In 1959 it acquired the White Front chain and now operates 60 stores, of which 19 are discount units. These 19 stores are expected to provide $90 million in revenues this year, or more than 60% of total revenues for the company.

The move into discounting was also profitable. Per share earnings in 1960 jumped to $4.11 from $2.06 the year before, despite a greater number of shares outstanding. Expansion costs in 1960 prevented a comparable jump in earnings, but final figures should still reach $4.50 per share. The market, unfortunately, has already substantially discounted Interstate's improved earnings. The stock climbed from a low of 33 in 1960 to about $74 per share recently. Dividends come to $1.20 a year.

J. W. Mays, a newcomer to the New York Stock Exchange, has had years of successful operations in Brooklyn and Queens. Only in the last few years, however, has it begun to expand its business. A highly successful store at Glen Oaks, Long Island led to the building of another, and two or three additional units will open in the New York area in the next year or two.

Mays specializes in soft goods and shows no sign of entering the hard goods end of discounting. From its earnings record it doesn't have to. Profits have climbed steadily each year at better than a 10% compound growth rate. In 1960, nine months earnings were equal to those of the full year 1959. The company seeks to double its sales over the next three years as new stores open. The stock has already doubled in the last year and offers only a small return from the 80¢ dividend.

A Different Approach

National Bellas Hess, Inc. has tried a different approach to discounting. Along with several privately held companies it has promoted the limited customer policy, similar to the old membership card gimmick used in New York some years ago. But the new membership operations are not clandestine affairs, but rather sound business operations that rely for their success on reduced advertising expenses and the intangible value of "belonging."

Earnings progress for National Bellas Hess has not yet been exceptional. True, per share net doubled between 1958 and 1960, but it still remains below earnings for 1956 and 1957. Nevertheless, the success of other membership operations around the country is encouraging.

Stop & Shop, Inc. on the American Stock Exchange illustrates another trend. The company operates about 120 supermarkets, many of them in shopping centers that also contain discount houses. So far its own participation in discounting has been nil, but it has recently announced its intention to enter the field. As a supermarket operation earnings have progressed well, from 78¢ per share in 1957 to $1.64 in 1960. If discount operations can be handled equally successfully, the company should enjoy favorable growth.

Here To Stay

Discount operations are big business, and all the signs point to their becoming bigger still. Pushbutton warehouses are now part and parcel of the discounting process, and huge IBM calculators perform inventory control functions for many of the companies. In addition, some of the operations are so well automated that the simple ringing of the cash register sets in motion a whole chain of electronic operations, from recording the sale to reordering the merchandise.

For seasoned investors the new field has not as yet taken on the aura of high grade investment status. Hence we cannot recommend any of the issues at the moment. Nevertheless, as the market seasons these equities, and as the outline of the defensive moves of the conventional retailers become clear, the stocks may settle down enough to be well worth a second look.

In the meantime, the exceptional promise of the new field may lend further appeal to conventional merchandisers intent on imitating this example. The quick-eyed investor may reap big rewards if he can spot the newcomers to the industry. END

AS PRESIDENT KENNEDY ACTS TO OVERHAUL OUR TAX STRUCTURE

— *A Careful Appraisal*

By ROBERT B. SHAW

- **The new philosophies and influences to dominate in overhauling our tax structure**
- **Potential impact of contradictory measures in the dual attempt to provide tax incentives while closing loopholes . . . what tax legislation likely**
- **Major tax changes in the making — what they can mean to you as an individual — a businessman — and as an investor**

1961 promises to be another important year for tax revision. The last major tax reorganization occurred in 1954. During the intervening seven years, a long time in this fast-paced era, pressures have already been building up gradually for a thorough revision of our revenue-raising system, and the victory of a new administration with differing objectives and campaign promises to fulfill, increases this pressure to the bursting point.

Curiously, the measures now being advanced by the Kennedy regime include both tax increases and reductions: increases to raise more money and close loopholes; reductions to stimulate a higher level of capital expenditures. Thus, many of the proposals are contradictory, and the final outline of any new legislation is far from clear. ***Just the same, certain strong tendencies that will affect investors can be discerned, and early recognition of these may help the adjustment to them.***

Major Sources of Government Revenue

Let's pause for a moment to examine the federal government's present revenue sources briefly.

● **The income tax, established as a first small foot-in-the-door in 1913, has long contributed the major part of federal receipts—some two thirds of the total.**

● **Excise taxes are important but much smaller, at around 10% or 12%.**

● **Estate and gift taxes, paid mostly by the very wealthy, contribute a mere $1.5 billions.**

● **And customs, a major source of revenue in**

colonial days, brings in little more than half that amount.

● Employment taxes make up most of the remainder, perhaps 10%, but in theory at least these are insurance premiums rather than true income. Individual Income Tax—● Probably to the surprise of many people, individual income taxes contribute about twice as much as corporate levies. ● And within the personal income group the lowest bracket rakes in very much more than all higher brackets lumped together.

● Specifically, the first bracket rate—20%—supplies six-sevenths of the total personal income yield, or not very much less than half of all federal government receipts. The 20% bracket is the basic rate on taxable income up to $2,000.

► "Taxable income", of course, allows a number of deductions and exemptions from gross income, but just the same the data shows clearly that the great bulk of our federal income comes from the large group of small and moderate earners. Good reasons may exist for soaking the wealthy more heavily, but it should not be fondly imagined that this is going to contribute very much to the federal treasury.

► But if the extremely high taxes on large incomes do not raise much revenue, the reverse proposition—that taxes have little effect upon personal or corporate business decisions—is not true at all. On the contrary, business decisions are now influenced very strongly by tax considerations, and a great deal of high priced talent is employed largely in figuring out the tax angles.

► With some conspicuous exceptions, such as the erstwhile undistributed profits tax, federal revenue policies have been designed primarily to raise necessary funds rather than to influence business decisions. **Now, however, the Kennedy regime is proposing significant innovations—a new kind of a loophole, in effect—in order to stimulate business into a program of heavier capital expenditures.**

What Is a Loophole?

This is a somewhat baffling position, as one of the new administration's most strongly asserted objectives has been the closing of tax loopholes. How can these contradictory purposes be explained? What is a loophole, anyway?

Probably a tax loophole can be most simply defined as a deduction or exemption the other fellow enjoys on his tax return that you do not. To be sure, there are certainly some tricks or subterfuges that almost everyone—even including those who have devised them— would regard as evasions, but general agreement as to the meaning of loopholes would stop at this point.

For example, *the existing 4% dividend credit*—in reality only a minor relief from the otherwise unmitigated burden of double taxation—is a loophole only because stockholders are still a small minority in the general population. ● *Depletion allowances, exclusion of municipal bond interest,* income splitting by married couples and even, in extreme cases, personal exemptions, allowances for dependents and the deduction of charitable contributions, may all be regarded as loopholes, more or less.

Since it affects every man's most vital spot—his pocketbook—the question of taxes invariably generates a good deal of heat. In levying taxes, however, the government is more interested in ease of collection than abstract justice. Thus, it would be pointless—as well as endless—to initiate a discussion of the equity of the various new tax proposals. Instead, let's try to look unemotionally at measures that have a good chance of adoption, and examine their probable effect upon investment policy.

A Proposal for Super-Depreciation

The loophole now being suggested is some method of allowing more than 100% depreciation. As depreciation is an expense it has always been a tax deduction. In this era of rapidly rising prices, however, depreciation no longer covers replacement; on the contrary, new capacity usually costs double, and often three or four times as much, as the original value of the facilities being retired. Several industries, particularly steel and machine tools, have been striving vigorously to make the public aware of this problem.

Heretofore, their plaints seem to have fallen upon deaf ears. But now suddenly they have won new support—from an administration not esteemed for its friendliness to business. The explanation is, of course, the desired stimulation of capital spending during the current recession. **This scheme has not been clearly defined as yet, but it contemplates an additional tax credit—perhaps 10% or 20%—of the amount by which any company's capital expenditures exceed its depreciation in the same year. It is hoped that this would stimulate immediate projects that might otherwise be postponed.**

Implications

This would mean, for example, that a company carrying out a $200,000 expansion program in a year when its depreciation amounted to $100,000 might receive a tax credit of 20% of the excess, or $20,000. On the surface this looks attractive, but its implications deserve more searching analysis.

► To say the least, the scheme has many bugs in it. In a curious reversal of the present tendency, it might create a pressure for decelerated amortization, so that the gap between depreciation and expenses would be as wide as possible. It might promote unsound expansion. It would certainly necessitate higher taxes in other areas. And, most dangerously, it would establish a stronger precedent than ever before for the idea that tax policy should be employed as a tool to influence business.

● A related scheme, less gimmicky in character, would be the adjustment of depreciation for price level changes. This would mean that the capital recovered as assets deteriorate, would be measured in terms of replacement, not book, value. This would substantially reduce the difficult problems involved in raising new capital, but from the government's point of view it would simultaneously cut taxes sharply.

Some members of the Committee for Economic Development, closely representative of big business, favored this price adjustment basis, but the CED as a whole recommended against it, in its recent policy statement entitled "Growth and Taxes". This method would be, the Committee felt, extremely difficult to administer, would not be particularly effective in promoting new investment, and would invite strident demands for similar treatment by other classes of taxpayers.

Accepting the futility of any hoped-for general tax reduction, most businessmen would undoubtedly prefer straightforward faster writeoffs of plant and equipment. Accountants' schedules of the estimated useful life of various types of equipment have been outmoded, they feel, by today's rapid technological pace. More rapid depreciation would supply strong incentive for more rapid modernization, without the difficult problems implicit in other, more complex schemes. It is a fair bet that whatever corporate tax relief is given will lean in this direction.

Dividend Credit Likely To Be Withdrawn

But while a few of the professors newly assembled in Washington are thinking in terms of some business stimulant, more of them are planning the elimination of existing tax loopholes, personal and corporate.

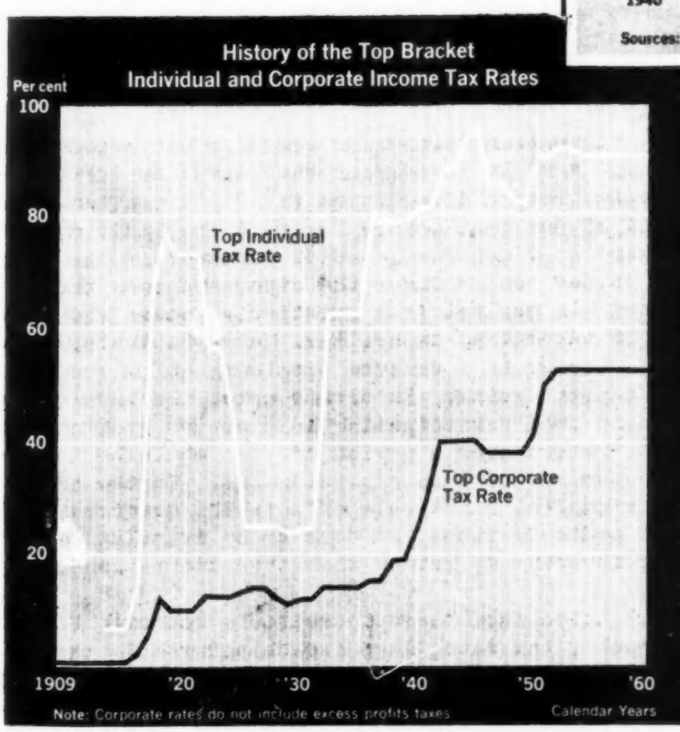
Among these, the *4% dividend credit* and *$50 exclusion* are likely to go. Although stockholders' representatives have repeatedly emphasized the injustice of double taxation of corporate dividends, the ruling element in the Democratic Party has not been impressed. These measures were very narrowly passed in 1954, and investors might as well accept the probability of their early repeal. The saving to the government will be only minor, perhaps $500 million, but the suggestion of privilege for the stock-owning class "cannot be tolerated".

Some of the government's advisers are even proposing that *all existing personal exemptions and deductions be wiped out*, with taxes being reassessed at much lower rates on 100% of income. This radical revision has much logic, but it would collide with numerous strong traditions and vested interests. Consequently, it seems extremely unlikely that public opinion will tolerate any material changes in this direction.

A New Assault on Tax-Exempt Bonds

Any suggestion for terminating the existing exemption from federal taxes of interest on state and municipal obligations will similarly bring anguished cries of protest from an influential triumvirate, local governments, the tax-exempt underwriting fraternity and the wealthy individuals who find a haven in municipal bonds.

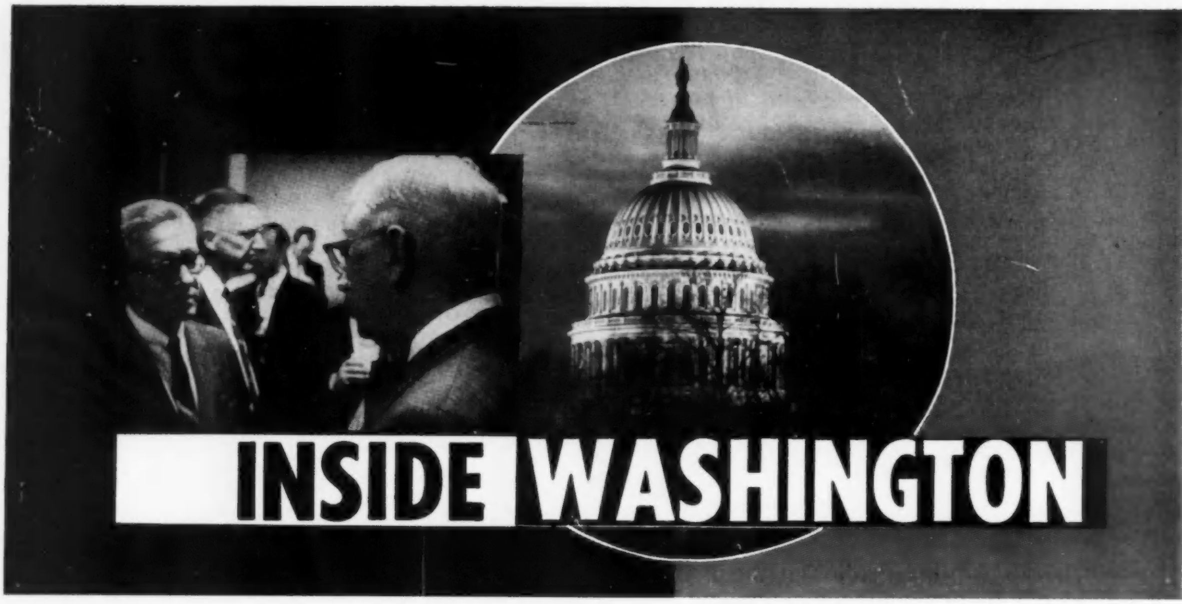
This exemption arises from the original political theory that the states were fully sovereign governments, immune from federal encroachments. The theory hardly conforms with the facts any longer, and it will become increasingly difficult to justify this privilege as burdens upon all other classes of taxpayers mount steadily. To be sure, cities and states still pack plenty of influence in Washington, so that an abrupt cancellation of the favored treatment for interest on their obligations is a remote possibility, but this exemption is likely to be whittled away gradually.



Such a change would probably have beneficial effects upon the stock market and upon the economy generally. It would lift financing costs for local governments, and this would be reflected in tax rates. But the artificial advantage which public projects now enjoy over privately financed schemes would be reduced. More significantly, large funds now committed to tax-exempt bonds would seek more active employment in the stock market.

Capital Gains Changes May Be Unpleasant

An area of probable change of more concern to the *(Please turn to page 672)*



BY "VERITAS"

FARM muddle to continue just exactly that, may get worse under legislation proposed by the President. This is the unhappy but well considered opinion of more than one Capitol Hill personality familiar with today's sorry picture; men who have devoted their legislative careers to the subject. About all they can say for the New Frontiers agricultural program is that it might possibly make dents — but small ones — in the huge surpluses in government storage. Most of their pessimism stems from the positions of the various farm organizations — all pushing for selfish objectives without regard for overall agricultural and public benefit. It adds up to a maze seemingly incapable of solution.

LABOR, through recent strikes that ignored public interest and convenience, is getting itself in the Congressional "dog house." This despite the fact that Labor Secretary Arthur J. Goldberg has been active in seeking solutions in two major public utility strikes — New York harbor tugboat crewmen and the airlines flight engineers. Solons heretofore in labor's camp are beginning to believe that organized labor's leaders are sorely abusing their powers under present laws — that "something" must be done, possibly bring the unions within the purview of the Anti-Trust Act as well as an an absolute bar to strikes against public utilities operating in interstate commerce. Even Goldberg, before entering the Cabinet and when still a special counsel to the AFL-CIO, cautioned certain labor leaders that the public interest in any labor-management dispute is paramount to the interests of either labor or management. Non-recognition of this salient fact will work to labor's disadvantage, he warned.

FUTURE private hydroelectric developments simply will not come about if the Congress adheres to policies laid down by the President in his natural resources message of two weeks ago. This is a capsule of Democratic and Republican legislative opinion. Likewise, it is the general opinion here. The Federal government, through its absolute control of navigable — even non-navigable — water courses can say "yea or nay" to any proposed private hydroelectric project. The President, acting under pressure from the National Rural Electric Cooperative Association and the American Public Power Association, both campaign supporters, has "dedicated" himself to a program of Federal development in this area. He also "stacked" the deal against private hydroelectric through appointment of an Interior Secretary, Stewart L. Udall (D., Ariz.), a public power enthusiast.

WASHINGTON SEES:

Mounting Communist activities on a world-wide basis — all directed from Moscow — are definitely in the making. None will be calculated to precipitate anything more serious than a "brush" war; even this is not in the plans of the Kremlin.

It is the intent of Khrushchev to precipitate and create incidents in rapid-fire order in an effort to keep the United States and the rest of the free world in a state of confusion, off-balance.

Federal Bureau of Investigation is prepared to document that recent Negro demonstrations at the United Nations were Moscow inspired, although no known card-carrying Communists were picked up. On the Red agenda are further racial disorders here, especially in the southern states. These are carefully planned "pin pricks," designed to disturb and nettle the Administration.

In other areas; notably Africa, Europe and Latin America, Kremlin-directed Communist activities definitely will mount.

In the immediate offing is trouble on the East Berlin front; this despite the fact that Khrushchev is anxious for personal confrontation with President Kennedy for two-man "summit" conference on Red-U.S. differences if the Red premier elects to attend the United Nations meet later this month.

As We Go To Press

Congress To Apply "Buy America" Principle To Foreign Aid Program. Not at all happy over the "flight" of gold from the United States, and sensing that much of our economic aid program is wasteful to the point that some of it can be termed "boondoggling," the Solons are certain to look long and hard at the requested $4 billion Mutual Security appropriation request. It may even be halved, after which there will be stipulation that assistance to foreign countries be justified as being clearly and directly related to our national security, or for emergency relief in famine and disaster areas. Of a certainty, there will be provisos that relief materiel—construction machinery, railroad equipment, etc—be of U. S. manufacture, not the production of foreign industrial enterprise.

Agriculture Department To Propose Costly Acreage Reshuffle? In the mind of Secretary Orville Freeman, in a desperate attempt to reduce feed grain—corn, rice and wheat surpluses—is 10 million acre reduction of these crops, the farmers to be encouraged to plant an equal increase in soybean acreage. It would be a "frying pan to the fire" move. Soybeans, now a profitable animal food and human food crop, would surely be depressed by any such acreage increase, and farmers would put more soybeans in the loan thus filling storage bins now occupied by corn, wheat and rice. The soybean is one crop that is being exported without government subsidy; in fact last year's overseas sales amounted to nearly $300 million, all in hard money—no soft currency payments.

Lead, Zinc Congressional Prospects Fair for Small Producer. The House, now doing Committee work on these two metals, will doubtless reject any proposals for increased tariffs or for restrictive import quotas. Small producers (5,000 tons or less per annum) can reasonably expect Federal subsidies—not immediately, but before Congress adjourns. Any effective legislation will be as of July 1, 1961. In the meanwhile, copper seeks Congressional relief—higher tariffs or restrictive quotas. Neither will come about. Copper, like steel, faces aluminum competition as researchers in the white metals industry find more and more uses for their product, especially in the area of electrical transmission lines and cross-country power line towers. The non-corrosive properties of aluminum confront steel and copper with problems.

SEC Is Tightening Up In Area Of Fraudulent Stock Offerings & Sales. Not yet publicly announced is enlargement of Securities & Exchange Commission's staff to police the securities market, primarily to prosecute those "investments of questionable character." The move comes from the Commission itself, although there has been some prodding from the White House and the Department of Justice. This last, Justice, will maintain closer liaison with SEC—even assigning crack FBI investigators to aid. Fraudulent stock deals are on the rise, according to a very reliable SEC source, who predicts the new "arrangement" will be "highly effective" in remedying an admittedly bad situation.

Atomic Powered Aircraft Now on Drafting Boards. General Electric has publicly announced that it will make static (ground) tests of an atomic powered engine for aircraft within a year, adding that a nuclear powered plane will be aloft within four years. Atomic Energy Commission (AEC) and National Aeronautics and Space Administration (NASA) experts privately say the GE announcement is "on the conservative side" for the reason that the company's researchers, and those of AEC and NASA, will "solve the problem in 30 months, or less." On an engineering note, weight of the airborne reactors is major hurdle to overcome.

White House Press Relations Seem To Sour, But Only Slightly. Involved also are the electronics communications media. Washington newsmen (and women) who cover the White House, Capitol Hill, and Federal agencies, very definitely do not like the

evening Presidential "parleys" with The Fourth Estate at the end of a generally grueling day and at a time when reporters would prefer to be at home for dinner and a "visit" with the family.

In the meanwhile, radio-television networks are conscious that the President's evening sessions are pushing aside prime (and profitable) commercial presentations. These matters have been presented to the President and his Press Secretary, Pierre Salinger. At the moment, they seem indifferent to newsmen and to the networks. The live TV presentation is good Presidential publicity, while the personal inconvenience to reporters is simply of no concern. It was only recently that Salinger mildly "rebuked" the press for saying too much about the controversial nomination of Earl E. T. Smith as Ambassador to Switzerland. He did not directly say as much, but Salinger plainly indicated the President felt that press comment was overdone and to the disadvantage of Smith, later withdrawn from nomination.

Astronaut Flight, Or Launching, May Be July 4 Event. Three of the selected men for space flight are in prime physical and psychological condition for the try, while rocket-missile experts believe we have the mechanical means perfected; almost, that is. The "bugs" will be eliminated in a matter of two or three months. Propaganda experts in government departments have selected July 4, as a date that would give us a tremendous advantage about the world. The launching could be "profitably" tied in with our Declaration of Independence. In the meanwhile, there are those who do not wish to wait, declaring "the sooner, the better." Very possibly, the effort may come as early as Mid-May.

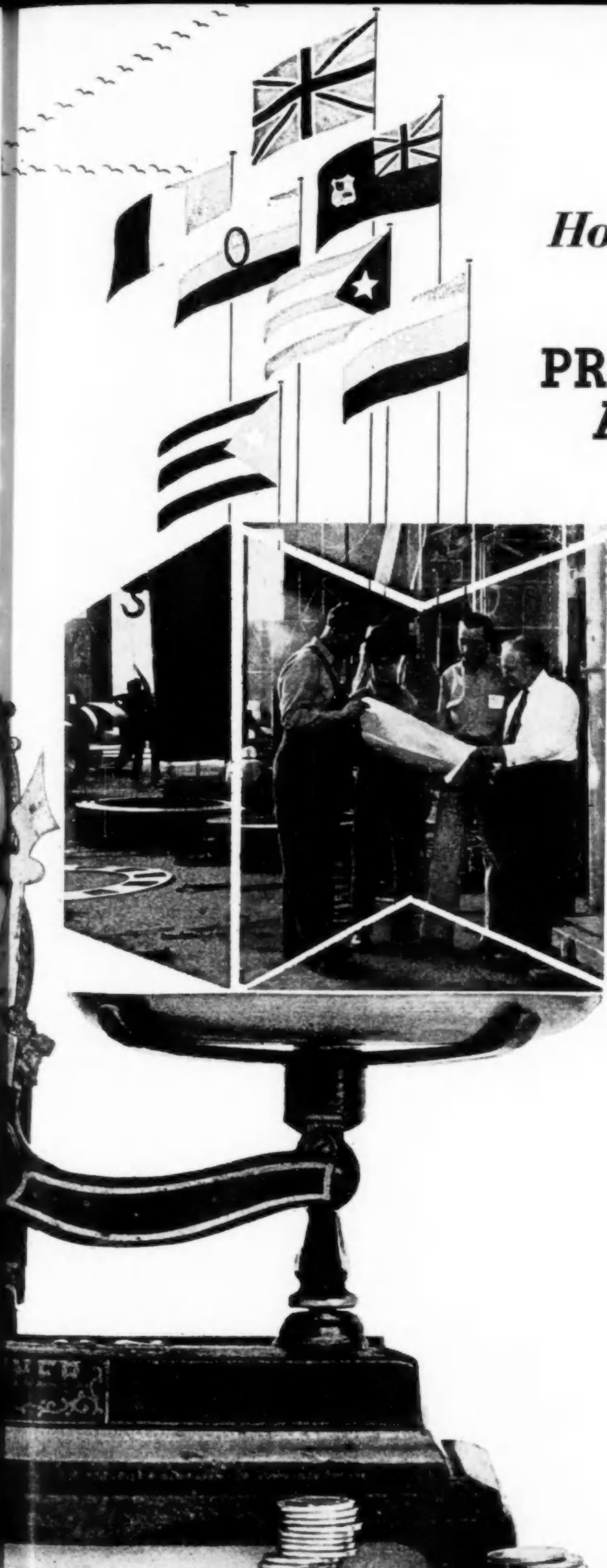
Nikita To Stay Home. Mr. Kennedy—aided by Ambassador Thompson, our Russian-speaking emissary to the Kremlin—has succeeded in dissuading Krushchev from coming to the United Nations meeting later this month. The President and his advisers see Nikita's presence as a disruptive influence—fear he will go into another shoe-banging tirade, followed by a demand for a Kennedy-Khrushchev summit conference, for which Mr. Kennedy is not fully prepared.

Government Waste Gets Administration's Eye. There has been no statement from the White House, nor will one come for some time, but Budget Bureau, General Accounting Office and key members of Congressional appropriations Committees are working as a "team" to trim the budget of so-called lard, and to eliminate duplication of Federal services, many of which—although necessary—could be handled by a single agency. Worst duplication, of course, is within the Defense Department where the three services—Army, Navy, Air Force—operate their separate procurement organizations, often in competition with one another. Consolidation of Defense purchasing of just "housekeeping" items—office supplies, clothing, food, etc.—could save a minimum of $3 billion annually. That fact is known; unknown is the power of the uniformed services' lobbies to thwart any attempted consolidation of their purchasing prerogatives.

More "Brush" Wars Anticipated? An affirmative answer is available in President Kennedy's recent directive to Defense Department (primarily Army and Marine Corps) to step up recruitment and training of Commando type troop units. It is also a warning to the Red camp in the UN that we will be prepared to counter any unilateral action in the world's trouble spots.

Powell's Threat On Desegregation Legislation Discounted In Washington. The mercurial Negro Congressman from New York City's Harlem has again threatened (after a previous disavowal of such intent) to inject the racial issue into the aid-to-education bill by an amendment which would bar Federal assistance to those States not yet complying with the Supreme Court ruling that racial segregation in the public educational systems is unconstitutional. He definitely knows that such a move on his part would bring vigorous prosecution of still-pending income tax charges.

Administration Will Fully Support U. N. In Congo. Although Russia and some of the Neutralist nations of Asia and Africa, are trying to torpedo the United Nations efforts in the Congo, the United States will throw all of its weight—money and troops, if needed—behind UN's efforts to bring peace and quiet to the African republic which gained independence about half a century before being ready for it.



How wrong can you be...

ABOUT PROFIT SANCTUARIES AND TAX HAVENS

By NORMAN A. BAILEY

- **An expert separates facts from fancy on this controversial subject**
- **Calls attention to misconceptions and completely erroneous ideas concerning advantages for levying imposts on U. S. foreign affiliates — and the impact on the outflow of gold from this country**
- **Spotlights the various practical uses of profit sanctuaries abroad for American companies — advantages and disadvantages of the leading tax haven countries — and the American companies operating in this area**

ON several occasions spokesmen of the new administration and President Kennedy himself have spoken of reducing "undue" spending abroad, whatever that may be (private spending only, of course—the foreign aid sector is to be expanded). Fiscal reforms have been promised, plugging up tax "loopholes" leading to such "undue" spending.

One of these so-called "loopholes" which has been repeatedly mentioned is the use, by American corporations, of tax havens or profit sanctuaries abroad. Such mention is almost always accompanied by the implication that the use of such tax havens is a clever method by which nasty capitalists and octopus-tentacled corporations avoid paying their fair share of the country's tax burden.

It is not the purpose of this article to discuss the percentage of the government's tax receipts that is already paid by those elements that provide the incentive, capital and investment necessary to our economic growth, but rather to examine these tax havens, how they are used, why they are used, what they are,—what service they provide,—where they are, and finally,—if taxation of tax haven profits would actually result in the reduction of the outflow of gold from the United States and an increase in our tax receipts.

What Is A Tax Haven Abroad

Quite simply, a tax haven or profit sanctuary is a foreign political entity (sovereign nation, commonwealth or colony) which, from the standpoint of income taxes, is in one of the following three categories: (1)—*Levies no income tax of any kind.* (2)—*Levies no income tax on income produced*

outside of the country. (3)—*Levies a very small or nominal income tax on all income or on income produced outside of the country.*

Thus an American corporation with extensive operations abroad may establish a holding company, or a holding-distribution company in one of these countries and accumulate earnings from operations abroad in the corporation, tax-free or almost tax-free, for further investment abroad—thereby achieving two desirable goals, desirable from the standpoint of the company, of foreign countries, and of the United States—that is, reinvestment of 100-cent dollars instead of 48-cent dollars, making it unnecessary to send more dollars out of the country from the parent organizations to the extent that expansion of foreign operations can be financed from such foreign earnings.

All this, far from being a reprehensible plot to cheat the government, is simply a use of the principle, accepted by all civilized countries, that income produced outside the borders of a country and kept outside, cannot be taxed by that country.

Such money, however, cannot be brought into the country without becoming taxable. Thus, as soon as dividends are declared to the parent organization in the United States, those dividends are taxed, and since the company in question has been able to expand its operations abroad much more rapidly than if all income had been taxed in the first instance, the government receives a greater amount in taxes in the final analysis.

The use of tax havens is a method of tax deferral, not tax evasion nor even tax avoidance. That there have been minor abuses of the tax havens is undeniable, such as providing executives with lavish foreign vacations, using money accumulated in such havens. This should not provide an excuse for throwing the baby out with the bath water, nor should the U.S. Treasury be allowed to try to cover current deficits by the self-defeating method of taxing today, money which would otherwise have provided much greater taxes tomorrow, money which is in the meantime injecting into the economy of this country and of the free world as a whole the life-blood of commerce—capital.

It may also be questioned whether the courts would allow an extension of the government's taxing powers to the taxing of income produced abroad and left abroad by bona-fide business organizations (personal holding companies are already taxed). *We may hope that they would not, but many decisions in recent years cast doubts on whether the courts could be counted on to protect private companies from the encroachments of the government.*

TAX HAVENS ABROAD

		1	2	3	4
WESTERN HEMISPHERE	PANAMA	Poor	Good	Foreign earnings only	Good
	THE BAHAMAS	Good	Fair	Total	Good
	BERMUDA	Good	Fair	Total	Good
	JAMAICA	Good	Fair	Foreign earnings only	Fair
	CANADA	Good	Good	Some taxes	Poor
	NETHERLANDS ANTILLES	Good	Good	Some taxes	Fair
	PUERTO RICO	Good	Good	Some taxes	Fair
	VENEZUELA	Poor	Fair	Uncertain	Poor
AFRICA	LIBERIA	Good	Good	Foreign inocme only	Fair
EUROPE	LIECHTENSTEIN	Good	Good	Very small on foreign earnings	Good
	LUXEMBOURG	Good	Good	Foreign earnings only	Good
	SWITZERLAND	Good	Excellent	Variable	Excellent
	BELGIUM	Fair	Good	Reduced on foreign income	Fair
	NETHERLANDS	Good	Good	Negotiable	Good
FAR EAST	HONG KONG	Good	Good	Foreign income only	Good

Key To Numbers Above:
1—Rating for Political Stability
2—Rating for Economic Stability
3—Extent of Tax Exemption
4—General appraisal of country

The Various Purposes

An American corporation may decide to form a subsidiary in a tax haven country for various reasons. ● It may be quite simply a holding company, holding the stock of foreign subsidiaries which would otherwise be direct subsidiaries of the American parent. ● Other reasons for the establishment of tax haven corporations are set up so that they may act as distributor and sales agent for sales in third countries of goods prduced in the United States; ● act for the parent in licensing patents and trade-marks in third countries; ● act as an investment company for the parent in making investments abroad. ● One difficulty, if the tax haven subsidiary is established in order to facilitate export, is the price charged to the subsidiary by the parent corporation and the point at which title changes hands. In both cases, whether a transaction, or series of transactions is taxed or not, often depends on "capricious" rulings of the Commissioner of Internal Revenue.

In order to avoid tax liability, the U.S. parent should see to it that all transactions are made on an arm's-length basis, with a fair manufacturer's price charged to the subsidiary, and that as many of the formalities of title passage as possible take place outside of the United States. If the subsidiary acts only as a sales agent on a commission basis, this problem is avoided altogether. If all negotia-

tions are done on an "arm's-length" basis, the subsidiary may even lend money to the parent, although it must be noted that such loans have sometimes been considered disguised dividends by the Internal Revenue Service.

SELECTED AMERICAN COMPANIES OPERATING IN VARIOUS TAX HAVEN COUNTRIES

THE BAHAMAS
- Bethlehem Steel
- Caltex
- Crane
- Crucible Steel
- Glidden
- Olin Mathieson
- US Steel

BERMUDA
- Canada Dry
- Merck & Co.
- Pepsi-Cola
- Reynolds Metals
- US Time

HONG KONG
- Dow Chemical
- Mead Johnson
- Merck & Co.
- Olin Mathieson
- Chas. Pfizer

LUXEMBOURG
- Goodyear
- P. Lorillard Co.
- Allied Van Lines

PANAMA
- Alcoa
- American Cyanamid
- Borg-Warner
- Cutter Labs
- Dow Chemical
- Hoover Co.
- H. J. Heinz
- Monsanto Chemical
- Owens Illinois
- Parke Davis
- Remington Rand
- Sylvania Electric
- Upjohn

SWITZERLAND
- American Machine & Foundry
- Chrysler
- DuPont
- International General Electric
- Eli Lilly
- Motorola
- Pittsburgh Plate Glass
- Procter & Gamble
- Schering

What To Look For In A Profit Sanctuary

In selecting a profit sanctuary, what are the most important considerations for an American company? Oddly enough, the most important factor may not be the degree to which profits will be exempt from taxes. If it is a profit-sanctuary country, it will ipso-facto levy no taxes or only nominal taxes, so that it may in many cases be worth-while to pay a very low tax in a country which is well-placed geographically and stable politically and economically. These, then, are the factors to be looked for:

1. Location close to the area of greatest foreign operations. This may result in setting up two or more tax-haven corporations, one in Europe, for example, and one in Latin America. Proximity to shipping routes and availability of free-port facilities may be important for those operations mainly export in character.

(2) Within the limitations of item (1), location should be close to the home office where possible, to cut down on travel costs.

(3) Political stability. Included in this is the likelihood of future changes in tax policy.

(4) Economic stability. Most important here is foreign exchange policy, which may completely or largely defeat the purpose of the tax haven operation, if the subsidiary is unable to reinvest earnings abroad or remit dividends to the parent.

(5) Degree of tax exemption.

(6) Whether tax exemption applies to all income or only to income produced abroad. In the latter case questions may arise as to the actual source of the income.

(7) Minor considerations such as living conditions for American personnel, legal systems, language, difficulty of incorporation, and so forth.

The countries which are, at the present time, most used as profit sanctuaries are The Bahamas, Bermuda, and Panama in the Western Hemisphere; Liechtenstein, Luxembourg and Switzerland in Europe; and Hong Kong in the Far East.

The Bahamas offer many advantages as a profit sanctuary. There are no income taxes of any kind, so that the problem of where income is earned does not arise. There are also no business taxes, sales taxes, franchise taxes, or taxes on the accumulation of profits. The Bahamas also rate high as to political and economic stability, although a corporation which also operates within the Bahamas, and thus is given resident status must register with Exchange Control and may have difficulty converting its sterling earnings. The cost of incorporation is about the same as in the United States, with the cost rising with increase in authorized capital. The Bahamas are the closest to the United States of any tax haven country (with the exception of Canada, which is sometimes included among the tax havens), and the local language is English. Living costs, however, are high, compared with most other tax haven countries. Free port facilities in the Bahamas are available on Grand Bahama Island.

Bermuda provides most of the same advantages as The Bahamas. There are no income taxes of any kind, it has a free port, English is the official language, and incorporation is a simple procedure. It has two drawbacks, however. It is farther from the United States (although closer to New York) and if any business is to be done within the island, the subsidiary must be sixty percent beneficially owned by British subjects. Firms prohibited from trading in Bermuda, however, are given "exempted" status, and ownership is completely unrestricted. Foreign firms, moreover, may receive contractual assurance from the Governor-in-Council, good until 1986, against the application of any income, profits, capital assets or capital gains taxes or taxes on estates. A quorum of the board of directors must reside in Bermuda, and a registered office must be maintained.

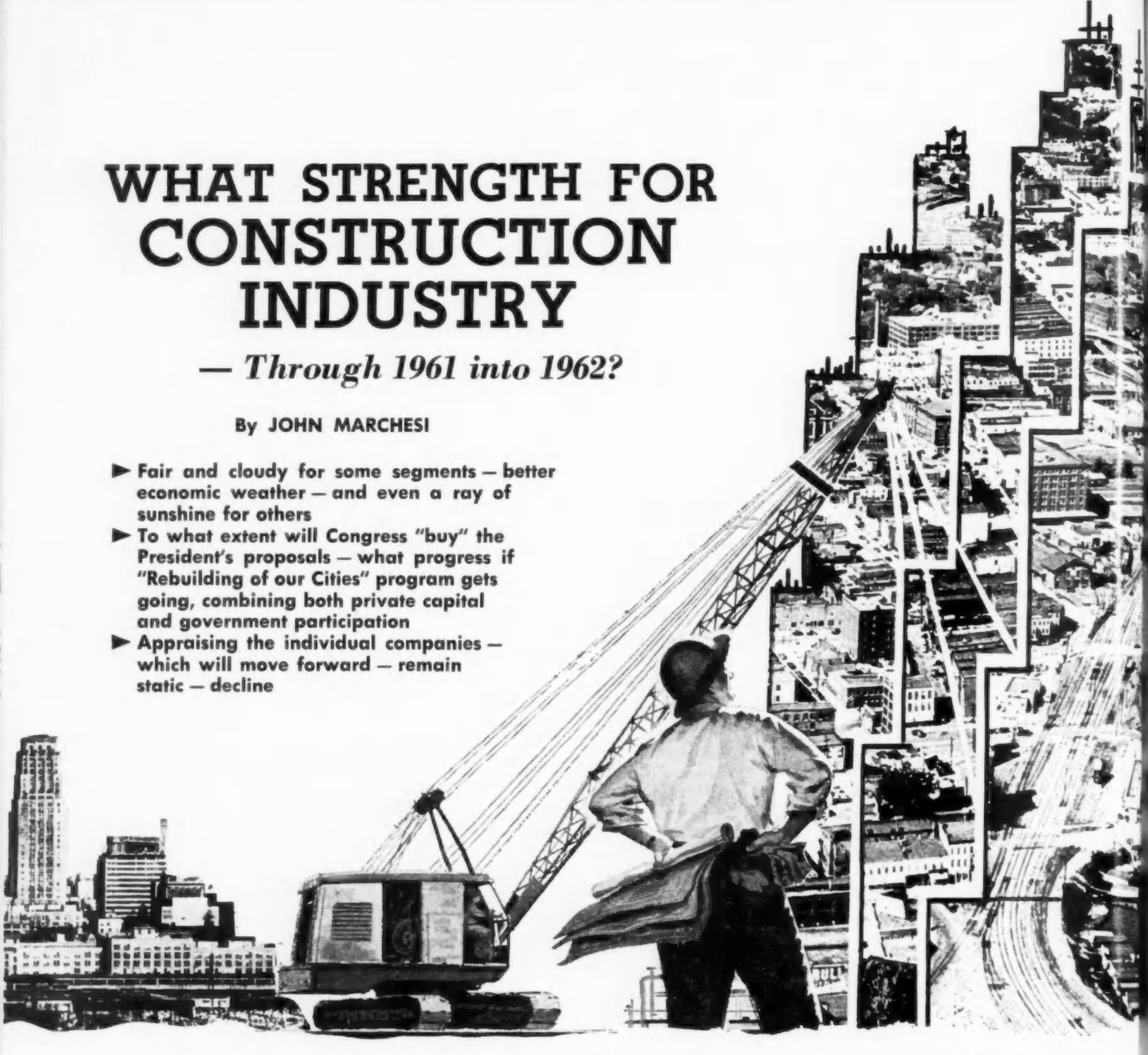
Panama is probably the most popular tax haven in the Western Hemisphere. In contrast to The Bahamas and Bermuda, it offers the advantage of complete absence of exchange restrictions. There is no income tax levied on income produced outside the country, which can, on occasion, give rise to a dispute as to the source of income. The Colon Free Zone has the finest facilities of any free port in Latin America, and Panama is, of course, one of the greatest shipping entrepôts in the world. Incorporation in Panama is very inexpensive, and there are no nationality requirements for stockholders, directors, or officers. Bearer shares are permitted. Directors' and stockholders' meetings may be held abroad and the articles of incorporation may even be executed in English. Spanish is, of course, the official language of the *(Please turn to page 676)*

WHAT STRENGTH FOR CONSTRUCTION INDUSTRY

— Through 1961 into 1962?

By JOHN MARCHESI

- **Fair and cloudy for some segments — better economic weather — and even a ray of sunshine for others**
- **To what extent will Congress "buy" the President's proposals — what progress if "Rebuilding of our Cities" program gets going, combining both private capital and government participation**
- **Appraising the individual companies — which will move forward — remain static — decline**



JUST like the good woman at home, the construction industry is too often taken for granted. Yet, it has been and will continue to be one of the pillars of the economy. Sometimes described as the largest fabricating industry in the country, its overall contribution to Gross National Product is particularly significant. New construction accounts for about 11% of the country's annual production, while maintenance and repairs add another 5%. Thus, it is no wonder that economists pay so much attention to the outlook for this industry. What are the 1961 prospects facing the building trade?

The Present Prognostication

Allowing for the usual erratic factors in any forecast, the barometric needle is vacillating somewhere between "fair" and "cloudy", with a good chance that the economic weather will improve rapidly as the year progresses. Specifically, construction outlays are expected to rise to a new peak for $57 billion in 1961, up from about $55 billion in 1960 and higher than the previous peak of $56.2 billion in 1959. Breaking this total down into categories it is easy to see, however, that not all segments of the building industry will enjoy equal prosperity. For example, the all-important housing market can hardly be described as vigorous.

● **At the present time, starts are estimated at around 1.3 million this year, up modestly from the 1.25 million of 1960, but still well under the record 1.53 million homes of 1959.**

● **Peering a bit further into the crystal ball, the forecasters in the U.S. Department of Commerce see further slight gains in industrial and commercial building in 1961, but nothing startling.**

● **Perhaps the great postwar boom in office building construction is drawing to a temporary close.**

● **Highway building is pointed upward, and spending in this category should rise to at least $6 billion, from about $5.7 billion last year.**

Statistical Data on Leading Building Supply Companies

	Earnings Per Share			Dividends Per Share					
	1958	1959	1960	1958	1959	Current Div. *	Reecnt Price	Div. Yield	Price Range 1960-61
Alpha Portland Cement	$2.79	$3.20	$2.66	$1.50[1]	$1.75[1]	$1.50	32	4.6%	36¼-22¾
American-Marietta Co.	1.62	2.03	1.80[5]	1.00	1.00[1]	1.00	34	2.9	38¾-27½
American Seating	3.10	2.93	2.85[5]	1.50	1.60	1.60	43	3.7	44⅞-28⅛
American Standard **	.85	1.80	1.10	.55	.75	.80	14	5.7	16¼-11⅛
Armstrong Cork	2.59	3.69	3.08	1.40	1.60	1.60	58	2.7	59½-39'
Bestwall Gypsum Co.	2.23	2.40	1.50[5]	[2]	[2]	[2]	46	'—	50 -33⅜
Carey (Philip) Mfg. Co.	1.99	3.26	2.60[5]	1.60	1.70	1.60	32	5.0	35⅝-23
Carrier Corp.	3.27	3.62	2.03	2.00	1.60	1.60	40	4.0	41¾-27⅛
Certain-teed Products	2.79	3.77	1.78	2.20	2.00	1.00	31	3.2	35⅛-20⅛
Celotex	.96	1.60	1.20[5]	.60	[3]	.85	39	2.1	39½-11
Congoleum-Nairn	d2.88	.45	—[5]	—	—	—	9	—	12⅛- 7¾
Crane Co.	2.12	4.03	2.75[5]	1.10	1.10	2.00	49	4.0	64¾-40
Flinkote	2.22	2.41	2.01	1.60	1.65	1.20	32	3.7	38⅛-23½
General Portland Cement	2.13	2.27	1.87	1.15	1.32	1.35	39	3.4	42½-32
Glidden Co.	2.64	3.31	2.90	2.00	2.00	2.00	39	5.1	45⅝-34½
Holland Furnace	1.13	1.12	.25[5]	.60	.60	.60	10	6.0	13 - 9⅝
Johns-Manville	2.83	3.73	3.12	2.00	2.00	2.00	66	3.0	66½-44¾
Lehigh Portland Cement	2.11	2.24	1.83	1.00	1.00	1.20	32	3.7	33½-25½
Lone Star Cement	2.09	2.20	1.50[5]	1.20	1.30	1.00	25	4.0	30½-19½
Marquette Cement	3.25	3.55	3.51	1.50	1.70	1.80	61	2.9	61¾-40½
Masonite	2.93	3.59	2.76	1.20[1]	1.20[1]	1.20	33	3.8	38⅝-26¾
National Gypsum	3.57	4.66	3.70[5]	2.00[1]	2.00[1]	2.00[1]	59	3.3	62½-49⅛
Otis Elevator	2.34	2.78	2.50[5]	1.00	1.20	1.50	71	2.1	72¼-36¾
Penn-Dixie Cement	3.07	2.84	2.26	1.40	1.55	1.40	32	4.3	32⅞-24
Pittsburgh Plate Glass	3.24	4.36	4.62	2.20	2.20[1]	2.20	78	2.8	80⅜-55⅝
Ruberoid	2.56	3.49	2.45	2.00	2.20	2.00	44	4.5	44¾-31¾
Sherwin-Williams Co.	5.74	6.62	6.04	2.75	2.75	3.00	143	2.1	144½-90
Trane	2.26	1.89	2.60[5]	.90	.90	.90[4]	77	1.1	81½-56¼
U. S. Gypsum	5.05	5.70	4.71	2.85	3.00	3.00	112	2.6	116½-85¼
U. S. Plywood	2.47	5.36	5.10	1.62	2.25	2.00	48	4.1	50⅝-40½
Yale & Towne	1.62	2.26	2.25[5]	1.50	1.50	1.50	33	4.5	38' -26¼

*—Based on latest dividend rate.
**—Amer. Radiator & Standard Sanitary Co.
d—Deficit.
[1]—Plus stock.
[2]—Paid 3% in stock.
[3]—Paid 1/6 sh. of Vilspar Corp. stock.
[4]—Plus 25% stock dividend.
[5]—Estimated.

Alpha Portland Cement: Company's earnings adversely affected by new depletion law and poor operating year in 1960. Some recovery likely 1961. Well-situated plants are long term elements of strength. **B4.**

American-Marietta: An anti-trust complaint has cast a temporary shadow over this highly-diversified company's outlook. Assuming satisfactory settlement, good long-term growth should continue. **B2.**

American Seating: Leading manufacturer of public seating equipment. Low-cost line of products. Would benefit from school construction under proposed bill to aid education. **B2.**

American Standard: Somewhat better showing in 1961 possible for this company which is closely identified with residential construction. **B4.**

Armstrong Cork: Equipped to satisfy both new homebuilding and modernization demand, this company should do well in 1961. Long-term growth prospects better than average for group. **B2.**

Bestwall Gypsum: Considerable expansion of earnings potential is now underway and, when demand warrants high level operations, this company could show sizeable profits. **B4.**

Carey (Philip): A revival of the fortunes of this producer of asphalt and asbestos is dependent upon better conditions in residential construction industry. **B4.**

Carrier: This important producer of air conditioners may enjoy better earnings in fiscal 1961, if only because comparisons will be made with the strike-affected 1960 period. **B4.**

Celotex: The dividend, which was reduced in the face of sharply lower earnings for fiscal 1960, should hold at the new rate. Immediate profits outlook clouded for this building materials producer. **C4.**

Certain-Teed Products Some interest has been generated by the company's gambit into the shell home market. Main business is asphalt roofing and other competitive products. **C4.**

Congoleum-Nairn: Management is hoping to reverse the profit decline by emphasizing its Loomweve division products. However, company's long-term outlook remains uncertain. **D4.**

Crane: New management has been buying in company's shares and has made some acquisitions in an effort to bolster earning power. These moves could pay off in time. **B4.**

Flintkote: After several years of aggressive expansion, this company has begun to feel the pinch of growing pains. A period of consolidation appears to be indicated. **B4.**

General Portland Cement: A low-cost producer with well-diversified plants, this company has a promising long-term outlook. Moderate gain possible for 1961. **B4.**

Glidden: Management has been attempting to change the corporate image by emphasizing the chemicals and plant division. Meanwhile, profits continue gradual decline. **B4.**

Holland Furnace: Little growth has taken place in this operation for some time. The nearby picture is for more of the same. However, dividends may hold at $0.15 quarterly. **D4.**

Johns-Manville: In addition to its strong position in asbestos and other products, this company is in the fast-growing fiberglass field. Favorable long term prospects appear reasonably well-defined. **A2.**

Lehigh Portland Cement: This company was hit with lower depletion and higher taxes last year, and felt the pinch. Nevertheless, dividends have held at $0.30 quarterly and may continue at this rate. **B4.**

Lone Star Cement: Reflecting the burden of higher taxes under recent legislation, the quarterly dividend rate was cut recently. However, with long-term prospects favorable, the old rate could be restored. **A4.**

Marquette Cement: Company enjoys favorable geographic position and low-cost plants. These factors, coupled with cheap water transportation, suggest continuation of favorable position in industry. **A2.**

Masonite: The earnings decline in fiscal 1960 may not have run its course and another year-to-year downtrend is possible. However, long-term prospects favor subsequent improvement. **B4.**

National Gypsum: In addition to improving its gypsum reserve position, this company has been engaged in an aggressive expansion program. Long-run prospects appear reasonably good. **B4.**

Otis Elevator: Growth has been promoted by new construction and service contracts. Modernization of old buildings and self-service elevator installations also important. These trends may well continue. **A2.**

Penn-Dixie Cement: One of few cement companies able to meet its back tax bill under new law from current resources, and thus in better financial shape than most of its competitors. **B4.**

Pittsburgh Plate Glass: Well-diversified operations serving the building and automotive markets. Company has substantial potential earning power. Long-term outlook favorable. **A2.**

Ruberoid: Operations are affected by new housing starts to a substantial degree, although a good part of company's business represents maintenance. **B4.**

Sherwin-Williams: The excellent growth record of this paint company reflects its strong trade position and close ties with the maintenance market. Outlook favorable. **A1.**

Trane: Company has specialized in the industrial air-conditioning market with good showing in recent years. Prospect of further growth. **B1.**

U.S. Gypsum: The leading gypsum producer. Company also has other building lines. With low-cost production and a sound trade position, longer term outlook is promising. **A4.**

U.S. Plywood: Earning power adversely affected by the current low level of homebuilding and price competition. Lower earnings likely for fiscal 1961. However, dividends may hold at $0.50 quarterly. **B4.**

Yale & Towne: A producer of hardware and fork lift trucks. Long-term potential dependent largely upon success of latter products. **B2.**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

● **In fact, all types of public spending; which include not only roads, but military bases, municipal buildings, sewer and water systems and other items, will rise to around $17 billion in 1961 from about $16 billion in the year just ended.**

Quite aside from the spending on new construction, the economy will get a lift from the funds flowing into repair and modernization, likely to approximate $20 billion this year, up from $19 million in 1960. Not only has the maintenance area of the construction industry proved to be a stable factor during an off year, but it has exhibited growth characteristics as well and will continue to do so in the future.

Administration Proposals for Beefing Up the Industry

So much for the future as seen through the eyes of the Commerce Department. Now how about the outlook as it will be affected by the political actions of Mr. Kennedy and his party? There is no question but that the fate of the construction industry can be shaped to a considerable degree in the short run by political action, since the industry is susceptible to the effects of higher or lower interest rates. Also, it has been used as a medium to create jobs and undoubtedly will continue to be so employed by Washington.

According to the President, the time has come to stimulate a sagging economy, and he is accordingly proposing actions which, if approved, will directly affect the building trade. **As an initial measure the FHA has reduced the maximum permissible interest rate on FHA-insured loans from 5¾% to 5½%. Further, Mr. Kennedy has prodded 297 mayors to step up urban renewal projects, and has ordered the immediate spending where feasible, of the $724 million appropriated for federal highway construction for the remainder of the current fiscal year.**

He has recently proposed a gigantic aid-to-education program, calling for $5.6 billion expenditures over a five-year span, of which a fair proportion would be for schoolroom construction. These and other proposals have come out of the White House and more are certain to follow. How much actual impact can they have on the construction industry?

The Congress has listened to the proposals of the new President, but that's about all for the time being. How much of the program will the legislators buy? Considering the high rate of unemployment in many sectors of the country, it will indeed be a brave congressman who will put much weight upon the longer-term inflationary implications of larger spending and risk losing the votes of his idle or near-idle constituents at the next election. Hence, while predictions made of actions to be taken by Congress are often well wide of the mark, it is a reasonable assumption that a good deal of the President's program will receive approval. The only real hope that a spending spree can be avoided would be an early drop in the number of unemployed, but this is unlikely.

Urban Renewal Projects Offer a Strong Multiplication Factor

Incidentally, while it is common to speak first of the implications of heavy government spending for roads, the "leverage factor" implicit in urban renewal projects is truly impressive. ● The federal government may extend capital grants or loans to local governments equal to two thirds of the cost of buying slum property, leveling the buildings in the area and selling the cleared land to private builders.

● **Over the years about $1.39 billion has been allocated to the renewal program, but very little of this has been used.** ● Since the federal loans are repayable over a 15-year period, a local government unit can elect to clear slums now but pay later. ● If the experience of the recent past holds true in the future, each dollar of federal funds results in about ten dollars of private investment. Simple multiplication suggests that the economy could be stimulated to a very considerable degree by acceleration of the urban renewal program. (Our February 25 issue carried a full-length article on this subject.)

Second Half Should Be Better Than First

All factors considered, 1961 shapes up as a better year for the construction industry but the degree of improvement over 1960 levels does not look more than moderate at this juncture. The outlook may, however, continue to brighten as the year wears on, if political measures prove to be particularly effective. Price increases are likely to come into play later on in 1961, so that year-to-year gains in physical volume by the building trade will be smaller than might be suggested by the anticipated dollar rise in construction spending. Whether or not rising wage costs and other expenses will eat up most of the increase in receipts remains to be seen, but this is at least a threat for many individual lines within this broad industry. Even so, the construction group as a whole should enjoy slightly higher profits in 1961, with a better second half offsetting an anticipated poor first six months. The year is likely to end on a rising trend as the government moves described, begin to take effect. **For those who like to peer further ahead, it is conceivable that 1962 may be a very good year for the building industry.**

More Encouraging Outlook for Cement

Among the individual segments of this broad group, the cement companies are in an interesting position. On all counts 1960 was a poor year for these firms, with shipments falling about 6% and dollar volume about 4%. Reflecting the sagging demand, the industry operating rate slipped to 74% of capacity, as against 79.5% in 1959. And, as if the cement companies were not having enough trouble on their own, the Supreme Court got into the act with its decision which drastically changed the basis for figuring the depletion allowance. As a result, taxes were raised sharply, reducing current profits, and the companies also had to ante up a considerable amount for heavy retroactive federal levies. Under these circumstances, it was not surprising that a considerable number of these companies omitted year-end extras or cut regular quarterly payments.

The sky is beginning to look brighter now, but entirely clear sailing cannot yet be expected during 1961. Immediately ahead lies a pay increase which will be superimposed upon a set price structure and, as in many other situations, the squeeze on profits will get worse before it improves. So much for the bad news, which is pretty well known or anticipated by now.

On the constructive side, the growth in cement

Comprehensive Statistics Comparing the Position of Representative Building Supply Companies								
Figures are in millions of dollars except where otherwise stated	American Radiator & S. S.	Armstrong Cork	Philip Carey Mfg.	Carrier Corp.	Celotex Corp.	Flintkote Co.	Johns-Manville	U. S. Gypsum
CAPITALIZATION:								
Long Term Debt (Stated Value)	$ 15.4	—	$ 13.6	$ 54.0	$ 19.5	$ 27.8	$ 2.5	—
Preferred Stock (Stated Value)	$ 4.3	$ 16.6	—	$ 18.8	$ 5.1	$ 28.1	—	$ 7.8
No. of Common Shares Out. (000)	11,710	5,088	1,017	2,041	1,028	5,533	8,490	8,040
Capitalization	$ 78.3	$ 21.6	$ 23.8	$ 93.3	$ 25.6	$115.0	$120.7	$ 39.9
Total Surplus	$218.5	$146.5	$ 25.0	$ 90.2	$ 45.2	$ 62.8	$157.3	$262.8
INCOME ACCOUNT: Year Ended	12/31/60	12/31/60	12/31/60	10/31/60	10/31/60	12/31/60	12/31/60	12/31/60
Net Sales	$480.2	$291.5	$ 69.5	$256.8	$ 67.9	$252.1	$365.1	$273.4
Depreciation, Depletion, Amort., etc.	$ 15.0	$ 11.0	N.A.	$ 6.4	$ 3.3	$ 10.4	$ 16.8	$ 8.8
Income Taxes	$ 12.0	$ 16.6	$ .2	$ 6.0	$ 1.3	$ 9.5	$ 20.8	$ 35.8
Interest Charges, etc.	$ .1	—	N.A.	$ 2.4	$ .8	$ 2.2	—	—
Balance for Common	$ 12.8	$ 15.6	$ 2.4	$ 4.1	$ 1.8	$ 11.6	$ 26.5	$ 37.8
Operating Margin	5.2%	10.9%	N.A.	4.2%	4.8%	11.4%	12.9%	26.2%
Net Profit Margin	2.7%	5.5%	3.4%	1.9%	3.0%	5.1%	7.2%	14.4%
% Earned on Invested Capital	4.6%	9.6%	6.9%	3.9%	4.0%	8.6%	9.6%	12.6%
Earned Per Common Share	$ 1.10	$ 3.08	$ 2.36	$ 2.03	$ 1.78	$ 2.01	$ 3.12	$ 4.71
Cash Earnings Per Share	$ 2.48	$ 5.36	N.A.	$ 5.61	$ 5.26	$ 4.22	$ 5.06	$ 5.87
BALANCE SHEET: Year Ended	12/31/60	12/31/60	12/31/60	10/31/60	10/31/60	12/31/60	12/31/60	12/31/60
Cash and Marketable Securities	$ 34.5	$ 12.4	$ 5.7	$ 23.5	$ 6.3	$ 14.6	$ 53.5	$ 75.1
Inventories, Net	$116.8	$ 36.7	$ 9.6	$ 64.0	$ 7.3	$ 32.1	$ 46.1	$ 26.3
Receivables, Net	$ 58.9	$ 25.9	N.A.	$ 64.4	$ 11.9	$ 35.0	$ 60.2	$ 38.7
Current Assets	$223.4	$ 76.9	$ 26.0	$152.0	$ 26.1	$ 81.8	$160.0	$140.2
Current Liabilities	$ 58.9	$ 27.5	$ 7.6	$ 41.3	$ 6.3	$ 48.1	$ 57.1	$ 35.0
Working Capital	$164.5	$ 49.4	$ 18.4	$110.7	$ 19.8	$ 33.7	$102.9	$105.2
Current Ratio (C. A. to C. L.)	3.7	2.7	3.4	3.6	4.1	1.7	2.8	4.0
Fixed Assets, Net	$144.8	$116.0	$ 31.0	$ 62.3	$ 52.1	$127.4	$161.3	$190.2
Totals Assets	$374.6	$200.1	$ 58.4	$232.0	$ 79.5	$228.3	$337.2	$337.8
Cash Assets Per Common Share	$ 2.94	$ 2.45	$ 5.63	$ 11.51	$ 6.13	$ 2.65	$ 6.31	$ 9.34
Inventories as Percent of Sales	24.3%	12.6%	13.9%	24.9%	10.8%	12.7%	12.6%	9.1%
Inventories as % of Current Assets	52.3%	47.1%	37.1%	42.1%	28.1%	29.2%	28.8%	18.7%

N.A.—Not available.

demand has been remarkable in the post-war decade and should continue in similar magnitude. Output soared 69% in the last ten year period, compared with a gain of only 34% for all construction materials. New uses constantly seem to be appearing for cement, with particular growth in prestressed concrete alone just in the last few years. Already a $200 million market, this usage should expand another 20% in 1961! Demand will also be stimulated by the important roadbuilding market in 1960, with perhaps the heaviest impact from this source to be felt in the second half of 1961 and into the following year.

Even the heavy back tax liability may turn out to be somewhat of a blessing in disguise. Most companies have trimmed their capital spending programs sharply this year so that relatively little capacity will be added in the period immediately ahead. This means that as rising demand promotes the employment of facilities now working below their optimum levels, the industry should be able to reduce its unit costs. If so, profits in the second half may be more impressive than is now generally anticipated.

General Building Prospects Are "So-So"

The outlook for the wide sweep of companies associated in one way or another with the residential building market is more difficult to assess. If the puny gain in starts forecast by the Deparment of Commerce is all that materializes in 1961, these building companies will not fare too well, unless they have large interests in the modernization field. The big hope, of course, is that political moves to stimulate housing will produce a worthwhile gain in housing starts, but this is hardly assured. Many astute observers feel that the deferred demand for housing, which was the result of the under-consumption of the 1930's and the lack of building during the War, has by this time been largely satisfied. If this is true, a good many building companies will face tough sledding for quite some time. Although moves have been made recently to tap another aspect of the housing market by offering "shell" homes to buyers looking for little move than pure shelter, the effective demand for this minimized product remains to be demonstrated.

Assuming some success by Mr. Kennedy in inducing more people to buy homes. ● The outlook for the *gypsum* companies such as **U. S. Gypsum, National Gypsum** and **Bestwall** points to a moderately better year in 1961 than was experienced in 1960. ● Quite naturally, the *plumbing fixture, lumber, plywood* and *air conditioning* companies will face similar prospects. Most of these companies are likely to begin the building year on a soft, uncertain note, but should enjoy some moderate lift by the height of the *(Please turn to page 674)*

CHANGING INTEREST RATES and 1961 FINANCE COMPANY EARNINGS

By PAUL J. MAYNARD

- ► **Hard core finance business and the new insurance — factoring — and manufacturing diversifications**
- ► **Appraising finance and small loan companies — limiting influences — companies with strong expansion program — those facing problems — where growth should continue — earnings-dividend outlook for the individual companies**

DESPITE the recessionary influences which have become apparent in several sectors of the nation's economy, consumer personal income has held up remarkably well. It even recorded an increase last year from $383 billions to $410 billions! Total consumer credit likewise rose to a new peak level of close to $55 billion at the end of 1960, up $3 billion from the amount outstanding as of December 31, 1959. Furthermore, interest rates have dropped sharply from year-ago levels.

These factors all may be regarded as favorable to the growth in the business and earning power of the finance and small loan companies. There are, of course, several partially offsetting influences in the current economic situation from the standpoint of the finance companies.

● These include the blurred outlook for automobile financing as a result of over-heavy new car inventories, somewhat disorganized used car markets and the increasing proportion of total car sales attributable to the lower priced compacts.

● The less favorable factors might also include increasing competition from commercial banks in the instalment and personal loan field.

● Rising wage and salary costs and the possibility of increased repossessions and losses on loans if the current recession deepens.

● On balance, however, it would appear that the favorable factors outweigh the negative forces, and that the current general economic climate is one in which the finance companies should be able to give a good account of themselves.

Statistical Data on Finance Companies

	1958 Earnings Per Share	1958 Div. Per Share	1959 Earnings Per Share	1959 Div. Per Share	1960 Earnings Per Share	Current Dividend *	Price Range 1960-61	Recent Price	Div. Yield
American Investment Co. (Ill.)	$1.20	$1.00	$1.25	$1.00	$1.40[5]	$1.00	21⅝-17½	21	4.7%
Associates Investment Co.	5.09	2.60	5.05	2.60	4.46	2.60	63 -49¼	59	4.4
Beneficial Finance Co.	2.07	1.00	2.20	1.00	2.35[5]	1.00	39 -22⅜	38	2.6
C.I.T. Financial Corp.	4.31	2.40	4.57	2.50	4.67	2.80	78 -49⅜	77	3.6
Commercial Credit Co.	5.29	2.80	5.48	2.80	5.66[3]	3.20[3]	83 -55¼	82	3.8
Family Finance Corp.	2.22[1]	1.60	2.32[1]	1.60	2.40[1]	1.60	35 -28	33	4.8
General Acceptance Corp.	.89	1.00	1.45	1.00	1.52	1.00	20⅜-17	20	5.0
General Contract Finance Corp.	.55	—	.66	.30	.32	.20	8⅛- 5⅛	6	3.3
General Finance Corp.	2.48	1.05	2.69	1.20	2.95[5]	1.40	41½-30⅝	40	3.5
Heller (Walter E.) & Co.	2.39	1.20	2.74	1.25	3.22	1.60	66 -37½	65	2.4
Household Finance Corp.	2.53	1.20[2]	2.42	1.20[2]	2.44	1.20	38 -27	37	3.2
Pacific Finance Corp. (Calif.)	4.89	2.40	4.77	2.45	3.40	2.60	60½-46½	57	4.5
Seaboard Finance Co.	1.41	1.00[2]	1.47	1.00[2]	1.40	1.00[2]	27 -20⅛	26	3.8
Talcott (James), Inc.	2.64	1.23[2]	3.32	1.39	3.49[4]	1.80[4]	79 -44¾	77	2.3

*—Based on latest dividend rate.
1—Years ended June 30.
2—Plus stock.
3—Stockholders vote 3/30/61 on 2 for 1 stock split.
4—Stockholders vote 4/5/61 on 2 for 1 stock split.
5—Estimated.

Even in 1960, which was a year in which interest costs on money borrowed by the finance companies rose to modern record highs, these companies generally reported gains in net operating earnings. **This year, with the demand for consumer instalment credit continuing to be strong, and with interest costs declining, the finance companies should be in an even better position to improve on last year's results.**

The trend toward higher average personal income or "redistribution of the wealth" is continuing, and a whole new large generation of potential credit card and instalment credit users is coming of age. The younger (under 35) couples recently have tended toward earlier marriages, larger families and increased use of instalment credit to finance their suburban living. This places major emphasis on home and car ownership, plus the need for the whole battery of electric appliances which have been designed to ease household chores. As the children grow up a new need arises for credit to finance rising college tuition costs.

Earnings of both the sales finance companies which specialize chiefly in automobile and the instalment credit, and the small loan companies which concentrate on personal loans, have trended steadily upward since the end of World War II. Earnings also have shown considerable stability, and dividends of these companies are generally conservative and secure.

And Diversification Goes On Apace

In order to broaden the base of their activities and earnings, many finance companies have expanded into new fields of activity during recent years.

Insurance—Their move into the insurance field dates back several years. Such companies as **CIT Financial Corporation, Commercial Credit Company, Associates Investment Company, Seaboard Finance Company** and **Pacific Finance Corporation** have substantial fire and casualty insurance and life insurance affiliates. The business of these so-called captive insurance subsidiaries has been developed in particular along such feeder lines as automobile liability and collision insurance written in connection with automobile financing business, and credit life and disability coverage arising out of term protection offered borrowers under instalment loan agreements. The improvement in insurance underwriting results generally in the past two years has been reflected in earnings gains for these finance company insurance affiliates.

Factoring—Perhaps of more recent vintage have been the moves of the finance companies into such related fields as factoring (the purchase of current accounts receivable primarily from manufacturers, wholesalers, mills and converters), lease financing, wholesale financing, farm equipment financing and mobile home financing. These fields all are fairly closely associated with the basic nature of the credit extension services which historically and traditionally have constituted the core of the finance companies' business.

Manufacturing—Even more recently there has been a trend among the finance companies to seek a greater degree of diversification by acquiring manufacturing business which appear to bear relatively little relationship to the instalment loan or personal loan business. For example, in August 1958 *CIT Financial Corporation* acquired the *Picker X-Ray Corporation* and its affiliates, producing x-ray and isotopic equipment and surplus.

Commercial Credit Company has several manufacturing subsidiaries in such widely divergent fields as *meat packing, production of pipe fittings, roller bearings, metal housewares, printing machinery and presses* and *steel* and *brass valves.*

Associates Investment Company has a subsidiary, Durham Manufacturing Corporation, which produces *metal bridge tables* and *chairs, juvenile furniture* and *porch* and *lawn furniture.*

While these side-line activities may provide some hedge or diversification element in the finance companies' outlook they remain still largely supplementary.

Outside of the successful performance of some of the insurance affiliates, the finance companies have had to continue to look to their loaning business to provide the hard core of their earnings. Despite in-

creasing competition, this business has continued to grow and maintain its profitability.

Personal Loan Companies

Helpful in this trend has been the tendency toward larger unit size of loans and longer loaning periods. Since it costs as much to service a $200 loan as a $1,000 loan, there is a substantial advantage in making the loan for the larger amount.

The personal loan companies have benefitted from liberalization of legislation in several states with respect to the maximum small loan limit. Before World War II $300 was the maximum loan permitted under the small loan laws of most states, but this has gradually been increased so that many states now permit loans of $500 to $1,000. Thus, the average size of loans made by such a company as **Household Finance Corporation** has moved up steadily from $199 in 1946 to $399 in 1956 and to $454 in 1959. The constructive side of this situation is that the rise in average income has been such that the percentage of income represented by the average loan has actually declined in this period.

As a group, the finance company and small loan company stocks have been strong in recent markets and are now selling around their 1960-61 highs. Like the bank stocks, however, they are still selling at relatively modest price-earnings ratios (13 to 17 times) and are producing generally higher than average yields (around 4%).

Comments on individual companies follow.

CIT Financial Corporation—This Corporation is the largest of the independent instalment finance companies having total assets of about $2½ billion. This Company has been successful in steadily increasing its per share earnings from $2.92 and dividends $1.80 per share in 1951, to current levels of $4.67 and $2.80, respectively. The $4.67 per share earned in 1960 represented a new record in earnings and compared with $4.57 per share earning in 1959. Diversification activities have been well handled and successful penetration has been made in such varied areas of consumer financing as home improvements, motor boats and swimming pools. The Corporation also has done well in factoring and in car fleet leasing as well as insurance. Its subsidiaries in the latter field include Service Fire and Service Casualty, writing automobile fire, theft and collision insurance, Patriot Life Insurance Company, writing mostly credit life insurance and North American Life Accident & Health (acquired in 1958) writing accident and health and ordinary life insurance. At the recent price of 80, CIT is selling at 17.1 times earnings and yields 3.5%.

Commercial Credit Company—This Company is the second largest independent unit in the instalment financing field, with assets totaling about $2 billion. Earnings have moved up steadily from $4.33 in 1951 to $5.66 per share last year and the dividend rate has risen from $2.40 to the current $3.20 during the same period. The Company finances wholesale and retail sales of automobiles primarily, but also covers sales of appliances, boats and agricultural equipment. Other activities include personal loans, receivable financing, rediscounting, factorying and lease financing business. Insurance subsidiaries have been quite successful writing auto physical damage, credit life, health and credit insurance. Manufacturing interests consist of nine companies with widely different products.

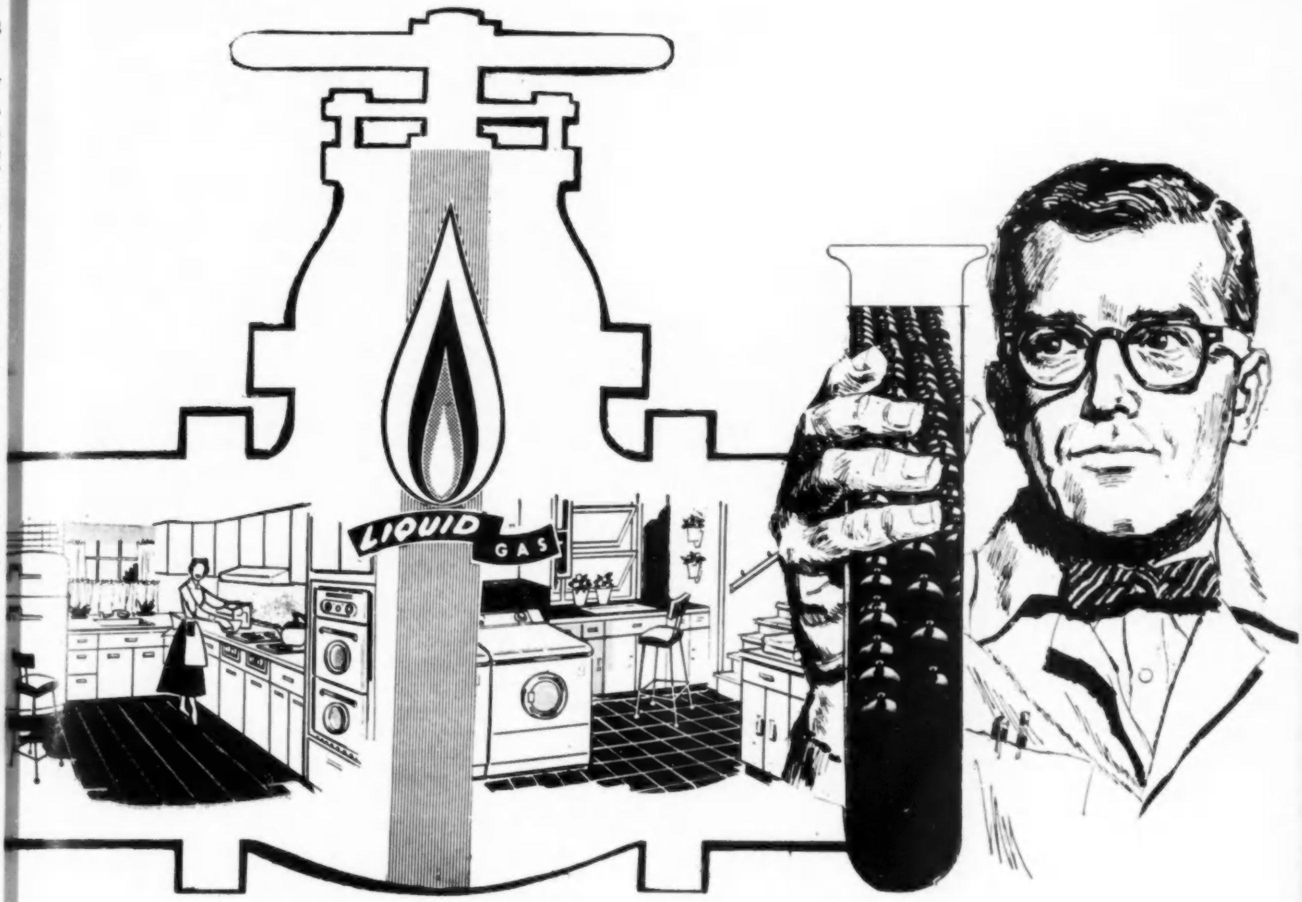
Associates Investment Company—This Company is the third largest independent finance company, having assets of about $1.2 billion. Following a gratifying run-up in earnings from $3.59 per share in 1951 to $6.11 in 1957, there has been a drop off to $5.09 in 1958, $5.05 in 1959 and an estimated level of $4.50 to $4.60 for 1960. This decline has been attributed to heavier interest costs and high taxes on the life affiliates earnings. Also additional expenses have been involved in opening many new offices in western states to offset concentration of operating in industrial states. This concentration proved to be disadvantageous in the 1957-1958 recession. At a recent price of 59¼ the Company's stock is selling at 13 times earnings and yields 4.4% on its present $2.60 dividend.

Pacific Finance Corporation—This is the fourth largest independent automobile finance company in the country, having total assets of over half a billion dollars. About 386 offices are operated in 23 states and in Canada. In the United States, emphasis has been on growth territories, with greatest concentration on the West Coast, in the Southwest and Midwest. From 1951 through 1958 earnings per share rose steadily from $2.79 to $4.89. In this same period the common dividend rate has been raised from $2.00 to $2.60 per share. The Company has concentrated on short-term borrowing rather than longer term loans. This tended to magnify the higher cost of money to the Company last year and early in 1960. Thus earnings have moved downward to $4.77 in 1959 and dropped to $3.40 per share on a larger number of shares obtained in 1960. A substantial increase in credit losses and expense incidental to keeping a centralized data processing system were the principal factors adversely affecting 1960 earnings. Benefits of currently lower interest rates are expected to help earnings in 1961. At a present price of about 54¾ the stock is selling about 16 times 1960 earnings and yields a generous 4.75%.

Trends among the small loan companies have roughly paralleled those of the automobile instalment finance companies during recent years. Earnings records of the three principal companies in the field, namely Household Finance Corporation, Beneficial Finance Company and Seaboard Finance Company have shown a large degree of similarity in the past decade particularly if allowance is made for the distortions arising from transfers to and from special reserves for loan losses.

Brief comments on leading personal loan companies follow:

Household Finance Corporation—This is the largest company in the personal loan field. It has well over 1,000 offices in 41 states and Canada and its assets approximate $700 million. About 32% of Household's business is conducted in Canada where new regulations have made loans of a certain size less remunerative and where competition from the charter banks has increased. However, by opening more new branches in the United States, Household has provided a basis for continued growth. Earnings peaked at $2.88 per share in 1957 and were $2.53 in 1958, $2.42 in 1959 and $2.44 for 1960. As the benefits of currently lower interest rates are realized, the Company's *(Please turn to page 674)*



L P G...BRIGHT SPOT IN THE OIL PICTURE

By DONALD TROTT

► **The story of the evolution of a new fuel — Liquified Petroleum Gas — built on a waste product — expanding use and varied applications — growing fields**

► **Companies involved — where future growth is most promising**

WHILE the oil and gas industries are retrenching and consolidating in order to adjust to a somewhat reduced rate of future growth, one segment of hydrocarbon consumption continues to move ahead at a dynamic pace. At this very moment, a bus driver in Wichita, a housewife in Alaska and a farmer in New Mexico are unthinkingly helping to make 1961 another year of significant sales progress for liquified petroleum gas (LPG)—a fuel which though once regarded as a waste product, has now become the foundation for a substantial industry with diversified markets, an assured source of supply and in recent years enthusiastic investor interest.

LPG is the term applied to the natural gas liquids ethane, butane, propane or a mixture of the latter two. **It is produced as a by-product of almost every refinery in the United States, and from natural gasoline plants. Since its introduction in 1920, its sales growth has been greater than that of any other fuel source, and has been virtually uninterrupted, with each year's volume increasing over that of the prior year despite varying economic conditions.**

During the past fifteen years, consumption of natural gas (generally regarded as a rapidly growing fuel) has increased at an average annual rate of slightly in excess of 4%, or only one fourth as fast as LPG sales! Moreover, an informed industry source has projected 1970 LPG consumption at 26 billion gallons compared with 9.9 billion in 1960, indicating a continuation of this impressive growth.

The increasing popularity of LPG stems from its unique characteristic of being readily changeable from a vapor to a liquid state under pressure. Thus, it may be compactly shipped as a liquid, and consumed as a gas. Furthermore ethane, butane and propane are clean burning gases, and are high in BTU content. A single cubic foot of liquified propane will vaporize into 270 cubic feet of gas, and will perform the work of 675 cubic feet of natural gas or 1,250 cubic feet of manufactured gas.

Principal Uses As An All-Purpose Household Fuel and In Chemical Manufacturing

In 1960, domestic and commercial outlets accounted for 44% of total gallonage consumed, chemical manufacturing 30%, industrial and miscellaneous 9%, motor fuels 9%, synthetic rubber 6%, and petroleum recovery 2%. As these figures indicate, LPG's principal market is as an all-purpose fuel in rural and suburban areas, particularly in those regions where sparse population density makes it unfeasible to utilize natural gas. LPG is used primarily in such areas for cooking, hot water heating and other household needs, and as a power source for agricultural machinery. The trend toward fewer and larger farms, with greater use of mechanical farming equipment points toward increasing agricultural energy requirements, and LPG is expected to participate substantially in this future growth. The fuel's importance to agriculture may be illustrated by its acceptance in New Mexico, where 98% of all tractors now in operation are powered by LPG, and all new tractors are coming through with LPG carburation as standard equipment.

In recent years the chemical industry has become an increasingly more important user of LPG, with its consumption in 1959 two and a half times what it had been in 1954. Ethylene, used primarily in the production of anti-freeze and plastics, is one of the fastest growing chemicals. It is derived from either hydrogenerating ethane, or cracking propane and butane, and it has been estimated that almost 5 million gallons of liquified petroleum gas will be required daily for that purpose, during 1961, and twice this amount seven or eight years hence. Other petro-chemical products such as synthetic rubber will also aid in the future growth of demand for LPG.

Uses — Many and Varied

Imaginative business men are constantly finding new uses for these hydrocarbon liquids. Outdoor swimming pools are being heated by them, citrus growers' smudge pots burn them, and drive-in theaters are using flameless portable propane heaters in order to extend their season. Others are using LPG for singeing poultry, burning weeds, and as a heating fuel for incinerators, dryers, brooders and tobacco curers.

Another more important area of increasing LPG consumption is as a motor fuel for internal combustion engines. Buses in Chicago, Wichita, Fort Wayne and San Antonio are being operated by it, while taxicabs in Washington, D.C.; Shreveport, Milwaukee and Oklahoma City are powered by LPG. The Chicago Transit Authority's records indicate that while gasoline propelled buses have a higher performance yield than those using LPG, this efficiency factor is more than offset by a 5¢ lower cost per gallon of LPG. Of course, this spread varies from one geographic area to another, and in some instances (Dallas, Texas, for example) is as much as $0.12 per gallon. Not only is it less expensive, but due to LPG's clean burning qualities, it has attracted the interest of health officials in large cities with air pollution problems. LPG also affords maintenance savings over vehicles using other fuels. One study revealed that a large truck propelled by LPG averaged $530 less per annum of maintenance expenses than a similar gasoline powered vehicle.

Conventional passenger automobiles may also be converted to LPG, but it is not currently considered economical for the average car owner whose vehicle travels less than 25,000 miles per annum. The cost of conversion to LPG carburation is about $250, or nearly the same amount as the annual saving which would accrue to the driver of 40,000 miles or more per year. In recent years conversion of automobiles to LPG carburation has averaged about 10,000 units per annum. The principal obstacle to more widespread conversion has been the relative scarcity of LPG filling stations. There are currently about 5,000 in operation (up from 700 six years ago) compared with about 200,000 conventional service stations. Their rate of increase is expected to continue at a high level, however, particularly as a result of the various new LPG pipelines being constructed which will allow for more widespread concentrations of low cost propane-butane mixtures—a prerequisite for large scale adaptation of LPG as a conventional automotive fuel. The fastest growing individual market for LPG motor fuel is for materials handling equipment such as fork lift trucks and stationary inplant machines. It is also the most important fuel for rail and truck cargo refrigeration units.

Home appliances constructed to utilize natural gas may also be powered by LPG, and it is not uncommon to find LPG distributors also engaged in their manufacture and/or distribution. The principal advantages of gas ranges over electric units are greater flexibility, a 33-40% lower original cost, lower fuel costs on a BTU basis, a lifetime American Gas Association guarantee on all burners and uninterrupted availability of LPG compared with uncertain electric service in some areas due to weather hazards. Other appliances are also gaining in importance. Sales of gas air conditioning units for example, were 180% above those of the prior year during 1959, with water heaters, warm air furnaces, boilers and clothes dryers also recording significant gains.

LPG Versus Natural Gas

As was noted above, most domestic and commercial consumers of LPG are located in areas where natural gas is not available. The extension of natural gas mains into regions served by liquified petroleum gas as population expands, creates a situation disadvantageous to LPG distributors as consumers naturally switch to the cheaper fuel when it becomes available. Experience has constantly shown, however, that the publicity given to the new availability of natural gas helps to make the public in more remote areas aware of the advantages of gas in general, so that LPG distributors usually acquire new customers to replace those lost to natural gas. As little investment in equipment is required (and this mostly for tanks which may be readily relocated) distributors suffer little financial loss in adjusting to this transition of markets.

Statistical Data on 9 Liquid Petroleum Gas Companies

	1959 Net Sales (Mil.)	1959 Earnings Per Share	1959 Div. Per Share	1960 Net Sales (Mil.)	1960 Earnings Per Share	Indic. Current Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
Blossman Hydratane Gas Inc.	$4.7[1]	$ .41[1]	$ —	$5.6[1]	$ .50[1]	$ —	8¾- 2½	9	—%
California Liquid Gas	6.3[1]	.68[1]	.05[5]	10.1[1]	.85	.20	29 -11⅞	28	.7
Mid-America Pipeline	—	—	—	2	2	2	25⅝- 8¾	23	—
Petrolane Gas Service	15.3	1.16	.50	17.6[1]	1.48[3]	.52[5]	39 -17¾	39	1.3
Phillips Petroleum	1,179.2	3.05	1.70	1,255.0	3.27	1.70	59¼-41⅛	57	2.9
Skelly Oil	257.6	4.87	1.80	187.7[8]	3.02[8]	1.80	56⅝-37	53	3.3
Suburban Gas	13.04[4]	1.03[4]	.54	16.8[4]	1.47[4]	.80[7]	60⅜-25¼	58[7]	1.3
Suburban Propane Gas Corp.	37.7	1.41	1.00	43.2	1.72	1.12	25⅝-17¼	25	4.4
Tropical Gas Co.	12.0	.90	6	12.5	1.05	6	21 -10	20	—

*—Based on latest dividend reports.
1—Year ended June 30.
2—Commenced operations December, 1960.
3—Year ended December 31.
4—12 months ended October 31.
5—Plus stock.
6—Paid 4% stock in 1960 & 2% stock in 1959.
7—Vote 3/7/61 on 2 for 1 stock split.
8—9 months.

Investment Opportunities

LPG has proven a rewarding business for investors to date, and based on projected future is likely to continue to do so. How may one participate in this growth? As butane and propane are obtained primarily as by-products of oil and natural gas production and refining, all producers of these natural gas liquids are, by their very nature, also producers of much greater quantities of other hydrocarbons, with LPG production being of relatively minor importance to their over-all operation. Thus, with the possible exception of **Union Texas Natural Gasoline, Phillips Petroleum** and **Skelly Oil** which place more emphasis on LPG activities than most integrated petroleum concerns, the potential investor cannot hope to find a situation which provides a significant stake in the growth of LPG consumption through the shares of a producer.

In regard to the transmission aspect of the industry, LPG pipeline ownership is mostly limited to companies whose LPG facilities were originally constructed several years ago to carry natural gas. While such concerns should benefit from the future growth of LPG, the huge capital requirements needed for further expansion, and regulation as interstate carriers will minimize the direct gains accruing to these companies from future LPG consumption gains. **Mid-America Pipeline** represents an exception, however. Formed in 1960 for the sole purpose of shipping LPG, its operating record is expected to closely parallel LPG's future growth.

By far the largest area of investor opportunity however, lies in the distribution segment of the industry.

There are thousands of LPG distributors scattered throughout the nation, ranging in size from small one-man proprietorships to multi-million dollar publicly held concerns with thousands of shareholders including many prominent institutional investors. Of the latter group two **(Suburban Propane Gas** and **Suburban Gas)** are listed on the New York Stock Exchange, another **(Blossman Hydratane)** will be listed on the American Stock Exchange shortly, and three others **(Tropical Gas, Petrolane Gas Service** and **California Liquid Gas)** are traded actively over the counter.

Economics of Growth

The growth of revenues of all of these distributors in the past has been aided by the following factors which are also expected to be important in the future:

(1) When LPG is first introduced to a given area, a relatively large potential market exists which may be fairly easily captured from wood, coal and kerosene.

(2) During the initial decade that an area is served with LPG, sales will increase as customers become educated in its economies and advantages, and tend to rely on it for a greater portion of their individual energy needs. Thus, while LPG is usually introduced to a residential consumer as a heating fuel, there will be the opportunity to sell it as a relatively low-cost power source as it becomes necessary to replace old equipment and to add new appliances. Home cooking, refrigeration, air conditioning and laundry apparatus, as well as tractors and other types of agricultural machinery, may be operated by LPG. Gradual replacement of conventional facilities as necessitated by normal wear and tear, by consumers already exposed to LPG for other needs, will aid the local distributor's revenue growth expansion during the initial decade of its operation both through the sales of appliances themselves, and via the increased LPG sales occasioned by the transformation of home and farm facilities to those powered by butane/propane.

(3) Just as supermarket chains have tended to benefit from the decline of the neighborhood grocer, so too, have all six of the above mentioned distributors profited from the acquisition of smaller less efficient units with established markets in the communities which they serve. Most of these acquisitions have been consummated at relatively little cost, as the economics of the industry make it difficult for the small independent to compete with the larger concern, and must, therefore, usually accept the buyer's offer, or face the possibility of encountering formidable competition.

Although LPG distribution is a "quasi-utility" function, the industry is free from regulation, and does not receive exclusive franchises, thus permitting competition to *(Please turn to page 678)*

FOR PROFIT AND INCOME

What "They" Are Doing

As a sales gimmick to lure business, some brokers and some published advisory services offer information on what the investment companies "are doing." This, of course, amounts to discussion of what they did in a preceding quarter—the fourth 1960 quarter in the present instance—as shown by their reports. What they did could have been done anywhere from 119 days to 27 days ago, figuring the time up to this writing. During the fourth quarter, one or more funds may have bought Gillette around 85, Johns-Manville around 53, Scott Paper around 95. But are they buying them today at 110, 67 and 105, respectively? Only the fund managers know. Moreover, while the quarterly reports show how many shares of this or that stock were bought or sold, they do not reveal timing of any operations within the quarter or average prices paid or received. Hence, analysis of what they did has limited value as a guide to your investment thinking and selections today.

Blue Chips

A "Blue Chip" is supposed to be a good stock of a sizable-to-large, strongly established company, with a good record and presumably favorable prospects. Such a company has to go down hill a long way, with its stock losing much ground in relative market position, before brokers cease classing the issue as a Blue Chip. So the term can be misleading if you take it at face value in your decisions to buy or hold given stocks. No company's record is a sure guide to its future. Conditions and competitive status can change. Moreover, some companies have become too big to permit more than so-so growth, if any. Actual profit records of some "Blue Chips" have been uninspiring for a long time. Consider the following examples of profits per share over a ten-year period, comparing 1950 with 1960: duPont $6.59 and $8.10; General Electric $2.00 and $2.26; General Motors $3.13 and $3.35; Goodrich $4.03 and $3.33; International Paper $1.80 and $1.80 (estimated); Owens-Illinois Glass $3.98 and $4.10. Others could be cited. Picking the real Blue Chips

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Idaho Power Co.	Year Dec. 31	$2.58	$2.32
Richardson Merrell, Inc.	6 mos. Dec. 31	1.72	1.41
Spiegel, Inc.	Quar. Dec. 31	2.15	1.90
Baltimore Gas & Electric	Quar. Dec. 31	.34	.28
Gerber Products Co.	9 mos. Dec. 31	2.78	2.46
Republic Aviation Corp.	Year Dec. 31	3.25	2.37
Heyden Newport Chemical	Quar. Dec. 31	.41	.29
Joy Mfg. Co.	Quar. Dec. 31	.61	.53
Ex-Cell-O Corp.	Year Nov. 30	2.23	2.16
Long Island Lighting	Year Dec. 31	2.18	2.04

of today and the future requires careful analysis of individual merits under present conditions and allowing for reasonably probable developments.

Too High?

Speaking of "Blue Chips" with a hangover of investment popularity, Aluminum Company of America, U.S. leader in this alleged growth industry, earned $1.76 (preliminary) a share last year, off from 1959's $2.52. It earned more than that ($2.27 a share) as far back as 1950; and peak earnings of $4.24 were seen in 1956. Some moderate further shrinkage seems likely this year. With long-term debt over $400 million, the company has had to borrow heavily to finance a huge expansion of facilities. The stock reached a high of 133½ in 1956. Lagging behind the market, it is currently at 70 in a 1960-61 range of 108-61⅜. With dividends at a $1.20 rate, the yield is about 1.7%. Demand for aluminum has grown and was at a record level in 1960, but capacity has outrun it for four consecutive years. Demand will grow further, but so will capacity. Intensely competitive conditions, especially in fabricated products, are indicated, for an extended time to come. Selling at over 40 times likely 1961 earnings, the stock appears over-valued on a realistic view. We do not see a basis for buying it; and those who hold it with high hopes "for the long pull" could be disappointed.

Cross-Currents

For technical reasons in some cases, fundamental reasons in others, the stronger-than-average stock groups at this writing are principally automobiles, building materials, coal, drugs, dairy products, farm equipment, finance and small-loan stocks, food store chains, mail order, liquor, natural gas stocks, electric utilities, sulphur, textiles and tobaccos. Groups currently faring worse than the market include aluminum, electrical equipment and appliances, gold mining, machine tools, motion pictures, office equipment, shipbuilding, shipping and sugar.

Strong Stocks

A partial list of industrial stocks reflecting above-average demand at this time includes: Atlantic Refining, Beckman, Bell & Howell, Beneficial Finance, Borman Food Stores, Brunswick Corp., Caterpillar Tractor, Celanese, Chicago Pneumatic Tool, Fedders Corp., Federated Department Stores, General American Transportation, General Mills, International Harvester, Johns-Manville, Lerner Stores, Lorillard, Macy, Melville Shoe, Peabody Coal, Republic Aviation, Revlon, Spiegel, Sterling Drug and United Electric Coal.

Laggards

Conspicuously weak stocks are few in this market but plenty of issues are lagging on a relative basis. Here are some of them: Acme Steel, Admiral Corp., Allis-Chalmers, American Cyanamid, Ampex, Bayuk Cigars, Briggs Mfg., Carter Products, Clevite, Dow Chemical, Emerson Radio, General Electric, Goodyear, Kelsey-Hayes, Kress, Montgomery Ward, Parke Davis, Pittsburgh Steel, Rayonier, Ryder System, Schering, Standard Packaging, Western Union and Westinghouse Electric.

The Averages

The financial community has to have averages or indexes of stock prices in order to talk about "what the market is doing." But, of course, you do not buy an average any more than you buy a suit, car, house or anything else at an average price. You buy a specific stock at its own price. You will be better off in the long run if you pay limited attention to what "the average" is doing and opinions as to what it may do, while concentrating on realistic analysis of individual stock values. Last year, the Dow industrial average had a net decline of about 9.3%. At the same time, 20 Big-Board stocks had declines ranging from 47.9% to 67.8%, and 20 had net gains ranging from 61% to 135.6%. None of the big losers was ever recommended here. Five of the big winners had been recommended here. Among the top five in this list of 20, gains ranged from 177.6% to 135.6% and two — Brunswick Corp. and Decca Records—were recommended here. Not at the lows, of course, but at advantageous prices.

M-G-M

In the fiscal year through last August 31, earnings of Metro-Goldwyn-Mayer rose over 31% to $3.83 a share. At the recent annual meeting of shareholders, President Joseph R. Vogel said that profit should show a 25% gain this year and that he anticipated further gains in the 1962 and 1963 fiscal years. That is looking far ahead, but a generally optimistic view sems well founded. The hit picture "Ben Hur" will be a big money maker for an extended time to come. Other operations are profitable, including foreign theatre interests, film series for TV and TV income from old (pre-1949) feature pictures, phonograph records and music publishing. Moreover, the company is now preparing to start release of post-1948 feature pictures to TV. The stock was recommended here some months ago at 33 and later at 40. It is currently at 50¾. We continue to advise retention of holdings in view of indicated further possibilities over a period of time.

Conservative Money Making

The average speculator will make money in some stocks, lose in others and do well to break

(Please turn to page 681)

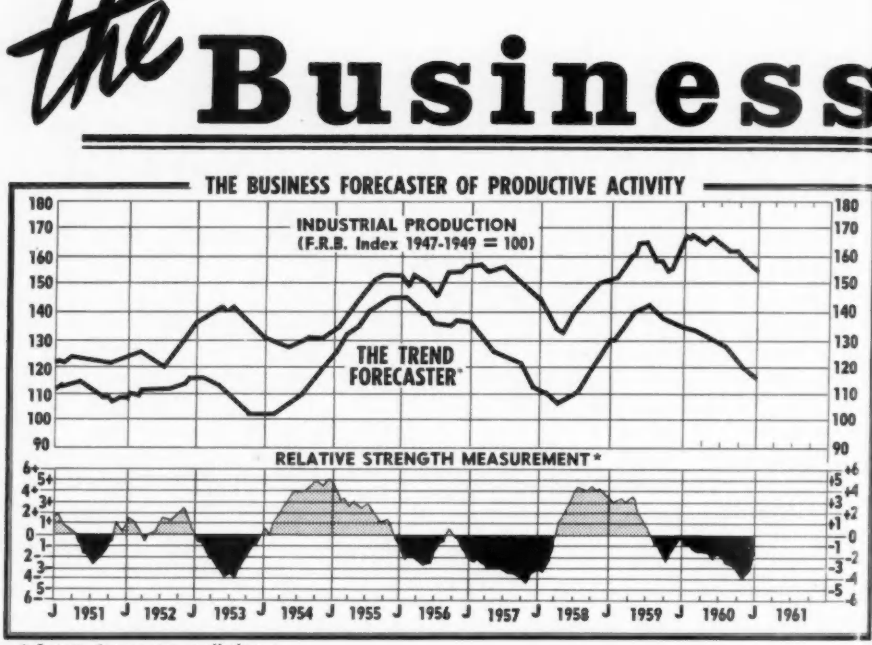
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Allied Kid Co.	6 mos. Dec. 31	$ .32	$ .82
Gladding, McBean & Co.	Year Dec. 31	1.56	1.81
Pittsburgh Coke & Chemical	Year Dec. 31	.78	1.98
Carpenter Steel Co.	Quar. Dec. 31	.27	1.19
Cunningham Drug Stores	Quar. Dec. 31	1.21	1.43
Keystone Steel & Wire	6 mos. Dec. 31	.80	2.28
McKee (Arthur G.) Co.	Year Dec. 31	2.31	3.52
Beaunit Mills	Quar. Dec. 31	.31	.75
Bayuk Cigars, Inc.	Year Dec. 31	2.13	2.84
Garrett Corp.	6 mos. Dec. 31	.50	2.54

the Business

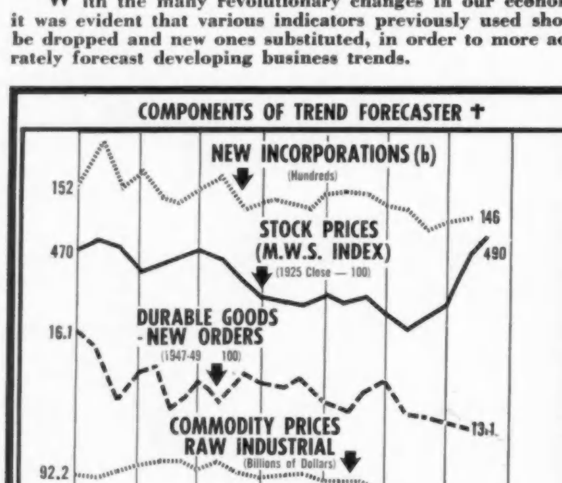
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The leading indicators have registered further improvement in recent weeks, with five series advancing on a month-to-month basis. Gains were registered by new incorporations, housing starts, industrial raw material prices, stocks prices and hours worked. The gain in hours worked was partly due to improved weather during the survey period but this does not negate the favorable implications of the rise in a good many of the indicators.

On the basis of the most recent data, the Relative Strength Measure rose to minus 1.9 in January, a sizable improvement from the low of minus 4.0 reached in November. With the Measure still in negative territory, no signal of an upturn in business has yet been given, although it does indicate that the decline should slacken or halt entirely in the next few months. The trend of the Measure in the next few months will of course be watched carefully and a move well into plus territory would foreshadow the beginning of business recovery.

Analyst

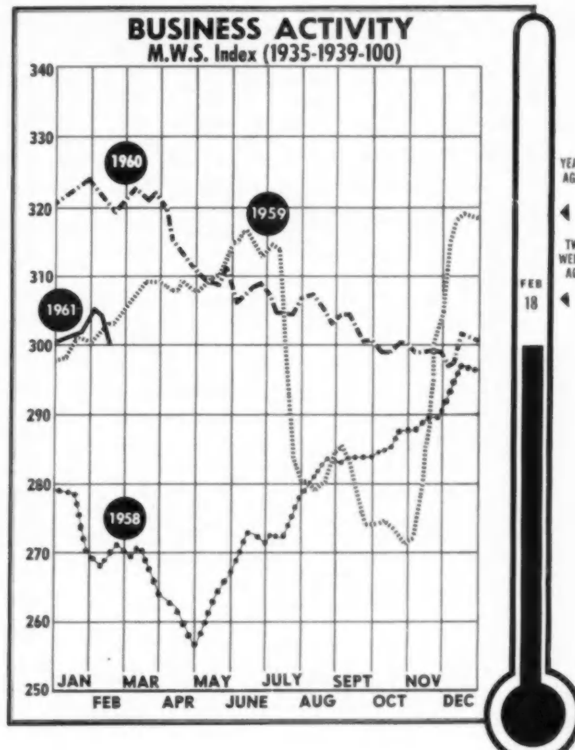
CONCLUSIONS IN BRIEF

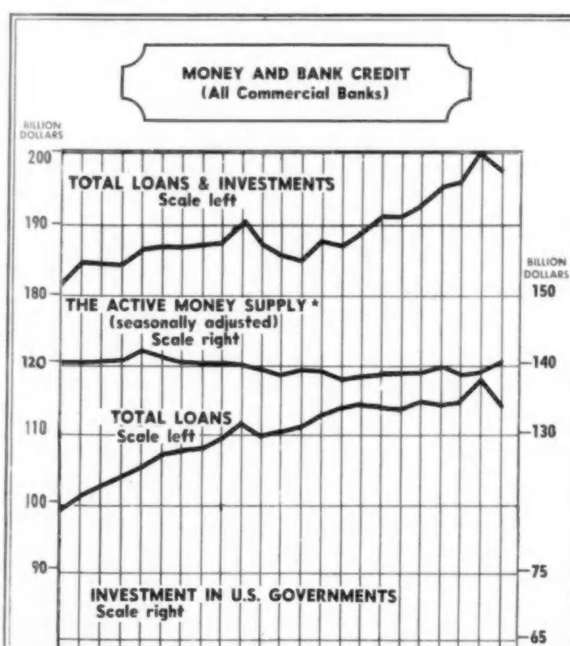
PRODUCTION—Output trends are extremely mixed, with weather changes accounting for some of the swings. Auto and steel production have improved but paperboard and electric power output are lower. Look for greater stability in the weeks ahead rather than any sharp upturn.

TRADE—Retail sales were expanding strongly in late February, but a good part of the gains reflect buying that had been deferred due to weather conditions. Demand should slacken a bit by mid-month but will hold above earlier depressed levels.

MONEY & CREDITS—Bond prices moved uphill and then down again, with the Fed's abondonment of its "bills only" policy responsible for the early spurt. Heavy volume of new tax-exempts and expectations of a nearby business upturn are expected to put further pressure on prices.

COMMODITIES—Raw industrial materials show pep as manufacturers begin to rebuild inventories and hedge against inflationary aspects of increased Government spending. Further price rises appear to be in the cards.





THE pace of the business decline has slowed perceptibly in the past few weeks and there are some signs that at least a temporary base is being formed, but no concrete evidence that this will be followed by a new upsurge in the economy.

The first signs of a coming change in the business trend usually are shown in the indicators that habitually move ahead of the economy in general. Among the eight indicators of this type that we follow, no less than five advanced in the latest month, namely hours worked, industrial raw material prices, stock prices, new incorporations and housing starts. Although the January gain in hours worked is partially attributable to bad weather at the time of the December survey, the fact that a majority of the indicators are now improving, greatly lessens the possibility that what we are witnessing is no more than a haphazrd fluctuation that will quickly be reversed. At the same time, we must remember that the concensus of our leading series now points to a bottoming out rather than a broad upturn.

In industry itself, some gains are also appearing. The steel and auto industries, which are the backbone of business activity have moved up from recent lows, although still far from the boom levels of a year ago. Although some of the improvement in car output and sales is no more than a natural rebound from the temporarily depressing effects of bad weather, the pick-up nonetheless should have constructive psychological effects.

Although the foregoing signs of improvement are

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Jan.	155	157	168
Durable Goods Mfr.	1947-'9-100	Jan.	154	156	180
Nondurable Goods Mfr.	1947-'9-100	Jan.	155	157	159
Mining	1947-'9-100	Jan.	128	128	128
RETAIL SALES*	$ Billions	Jan.	17.7	18.0	18.1
Durable Goods	$ Billions	Jan.	5.5	5.6	5.9
Nondurable Goods	$ Billions	Jan.	12.2	12.4	12.2
Dep't Store Sales	1947-'9-100	Jan.	142	147	146
MANUFACTURERS'					
New Orders—Total*	$ Billions	Jan.	28.4	28.7	29.8
Durable Goods	$ Billions	Jan.	13.0	13.2	14.2
Nondurable Goods	$ Billions	Jan.	15.4	15.5	15.6
Shipments*	$ Billions	Jan.	28.6	29.1	31.1
Durable Goods	$ Billions	Jan.	13.3	13.6	15.4
Nondurable Goods	$ Billions	Jan.	15.3	15.5	15.7
BUSINESS INVENTORIES, END. MO.*	$ Billions	Dec.	92.2	92.7	89.4
Manufacturers'	$ Billions	Dec.	53.7	54.0	52.4
Wholesalers'	$ Billions	Dec.	13.2	13.3	12.6
Retailers'	$ Billions	Dec.	25.4	25.4	24.3
Dept. Store Stocks	1947-'9-100	Dec.	167	169	161
CONSTRUCTION TOTAL—†	$ Billions	Jan.	55.3	56.4	54.7
Private	$ Billions	Jan.	38.2	38.6	39.9
Residential	$ Billions	Jan.	20.7	21.5	23.7
All Other	$ Billions	Jan.	17.5	17.1	16.7
Housing Starts*—a	Thousands	Jan.	1098	984	1366
Contract Awards, Residential—b	$ Millions	Jan.	974	879	927
All Other—b	$ Millions	Jan.	1511	1840	1266
EMPLOYMENT					
Total Civilian	Millions	Jan.	64.5	66.0	64.0
Non-farm*	Millions	Jan.	52.6	52.4	42.9
Government*	Millions	Jan.	8.6	8.6	8.3
Trade*	Millions	Jan.	11.7	11.5	11.6
Factory*	Millions	Jan.	11.6	11.7	12.5
Hours Worked	Hours	Jan.	38.6	38.6	40.3
Hourly Earnings	Dollars	Jan.	2.32	2.32	2.29
Weekly Earnings	Dollars	Dec.	89.55	89.55	92.29
PERSONAL INCOME*	$ Billions	Jan.	406	407	396
Wages & Salaries	$ Billions	Jan.	271	271	268
Proprietors' Incomes	$ Billions	Jan.	61	61	59
Interest & Dividends	$ Billions	Jan.	42	42	39
Transfer Payments	$ Billions	Jan.	31	31	28
Farm Income	$ Billions	Jan.	17	17	16
CONSUMER PRICES	1947-'9-100	Jan.	127.4	127.5	125.4
Food	1947-'9-100	Jan.	121.3	121.4	117.6
Clothing	1947-'9-100	Jan.	109.4	110.6	107.9
Housing	1947-'9-100	Jan.	132.3	132.3	130.7
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Jan.	112.2	110.8	111.7
Bank Debits*—g	$ Billions	Jan.	97.4	94.7	94.4
Business Loans Outstanding—c	$ Billions	Jan.	32.2	33.0	30.8
Instalment Credit Extended*	$ Billions	Dec.	4.0	4.1	4.1
Instalment Credit Repaid*	$ Billions	Dec.	3.9	3.9	3.8
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Jan.	4.8	7.6	4.9
Budget Expenditures	$ Billions	Jan.	6.5	6.8	6.2
Defense Expenditures	$ Billions	Jan.	3.7	4.2	3.5
Surplus (Def) cum from 7/1	$ Billions	Jan.	(6.5)	(4.9)	(6.9)

PRESENT POSITION AND OUTLOOK

heartening, we must not lose sight of the fact that other areas of the economy are still declining, and that, for most of them, no near-term betterment is in sight. The economic arena is now the battleground for a tug-of-war between forces of contraction and expansion and an uneasy balance between the two may well result. Examining the many diverse factors that have been influencing the economy, it is evident that the business contraction thus far has been mainly the result of a sharp switch from heavy inventory accumulation in the first quarter of 1960 to inventory liquidation in recent months. This alone has reduced demand for output by some $14 billion a year. But with consumption now above output, and inventories being whittled down, businessmen will eventually have to begin restocking again. This turn to inventory accumulation, when it comes, will provide at least a temporary fillip to the economy.

It is now clear that the underlying demand for goods and services is also going to be bolstered by Government actions—both those initiated by the Eisenhower Administration and by President Kennedy. The Federal Government is authorized to incur spending obligations of $86 billion in fiscal 1961, a $10.8 billion increase over the previous year. With about half of these authorizations still to be placed, Government orders should rise strongly in the next few months.

As for actual Government spending, it has often been noted that red tape and the normally slow processes of legislative action are apt to delay desired expenditures until the need has passed. The new Administration, however, is doing its best to get around this difficulty and wherever possible, it is shifting future spending obligations into the current period. Thus the President has ordered a speed-up in various payments that should quickly add more than $600 million to personal income. In addition he has made $724 million of Federal highway funds immediately available for use, although the states must also put up their share to get actual construction rolling. Moreover, prospects look good for swift passage of the bill to extend un-

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter IV	1960 Quarter III	1960 Quarter II	1959 Quarter IV
GROSS NATIONAL PRODUCT	503.5	503.5	505.0	486.4
Personal Consumption	330.8	328.3	329.0	319.6
Private Domestic Invest.	66.0	70.8	75.5	70.8
Net Exports	4.0	3.7	2.0	—0.4
Government Purchases	102.1	100.7	98.6	96.4
Federal	53.3	52.7	51.7	52.5
State & Local	48.8	48.0	46.9	43.9
PERSONAL INCOME	408.5	408.0	404.2	389.0
Tax & Nontax Payments	50.4	50.5	49.9	46.5
Disposable Income	358.1	357.5	354.3	342.4
Consumption Expenditures	330.8	328.3	329.0	319.6
Personal Saving—d	27.2	29.2	25.2	22.8
CORPORATE PRE-TAX PROFITS		41.5	45.7	44.8
Corporate Taxes		20.3	22.3	22.1
Corporate Net Profit		21.3	23.4	22.7
Dividend Payments		14.0	13.9	13.8
Retained Earnings		7.3	9.5	8.9
PLANT & EQUIPMENT OUTLAYS	35.6	35.9	36.3	33.6

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Feb. 18	300.2	304.4	318.5
MWS Index—Per capita*	1935-'9-100	Feb. 18	215.4	218.5	231.8
Steel Production Index*	1957-'9-100	Feb. 18	84.9	81.8	143.5
Auto and Truck Production	Thousands	Feb. 25	132	106	195
Paperboard Production	Thousand Tons	Feb. 18	298	301	330
Paperboard New Orders	Thousand Tons	Feb. 18	283	304	298
Electric Power Output*	1947-'49-100	Feb. 18	270	278	265
Freight Carloadings	Thousand Cars	Feb. 18	502	486	572
Engineerings Constr. Awards	$ Millions	Feb. 23	397	329	308
Department Store Sales	1947-'9-100	Feb. 18	115	111	107
Demand Deposits—c	$ Billions	Feb. 15	59.4	60.2	59.4
Business Failure—s	Number	Feb. 16	374	376	259

PRESENT POSITION AND OUTLOOK

employment insurance benefits to those who have used up these grants, and this should put some $600 million into immediate circulation.

The Government actions outlined above plus additional measures still to come, will get a good deal of the credit for any stabilization that may develop. But the question still remains as to the durability of such a base. Certainly, some of the areas that triggered increased demand in previous postwar expansions are now in a less favorable position. Consumers for example are well-stocked with durable goods of all kinds, the backlog of unsatisfied demand for housing has been whittled down and consumer debts are high. Outlays for services should expand further, but total consumer spending may not show much improvement. On the business front, there is much unused capacity and industry is planning further decreases in capital spending. These longer-term functional imbalances all seem to militate against any sizeable recovery at this time. Developments in the months ahead, however, may yield a more favorable prognosis, if the dynamism of the American economy asserts itself.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 Feb. 17	1961 Feb. 24
Composite Average	499.6	410.9	492.4	499.6H
4 Agricultural Implements	474.0	346.0	450.9	474.0H
3 Air Cond. ('53 Cl.—100)	153.4	105.8	144.7	153.4H
10 Aircraft & Missiles	1232.7	861.9	1200.5	1232.7H
7 Airlines ('27 Cl.—100)	1044	736.7	1009.0	1017.1
4 Aluminum ('53 Cl.—100)	521.3	354.5	413.4	409.4
5 Amusements	368.2	209.3	358.9	368.2H
5 Automobile Accessories	531.1	401.0	455.2	455.2
5 Automobiles	157.0	90.8	96.2	99.0
3 Baking ('26 Cl.—100)	41.0	34.9	40.2	41.0H
4 Business Machines	1577.8	1159.1	1499.6	1577.8H
6 Chemicals	809.6	657.3	790.2	782.8
3 Coal Mining	36.0	27.2	34.1	35.0
4 Communications	234.4	199.9	233.6	231.4
9 Construction	209.8	143.3	198.0	209.8H
5 Container	1064.7	824.6	953.0	961.7
5 Copper Mining	347.6	275.4	325.0	325.0
2 Dairy Products	217.8	146.8	203.9	216.1
5 Department Stores	166.1	135.2	160.1	166.1H
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	414.7	414.7
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	337.1	337.1
3 Finance Companies	915.1	648.8	899.0	915.1H
5 Food Brands	624.5	419.3	602.2	613.4
3 Food Stores	270.8	232.1	267.9	267.9

(Nov. 14, 1936 Cl.—100)	High	Low	Feb. 17	Feb. 24
High Priced Stocks	309.5	262.7	306.0	309.5H
Low Priced Stocks	653.8	527.6	630.0	642.4
5 Gold Mining	1226.0	810.8	1072.7	1050.8
4 Investment Trusts	170.6	136.5	152.5	159.5
3 Liquor ('27 Cl.—100)	1534.5	1098.2	1349.4	1361.1
7 Machinery	579.2	402.9	559.7	579.2H
3 Mail Order	457.8	364.2	457.8	457.8
4 Meat Packing	293.1	223.9	290.5	293.1
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	167.1	167.1
9 Metals, Miscellaneous	399.1	313.3	379.3	382.7
4 Paper	1237.1	867.3	1080.3	1080.3
16 Petroleum	785.7	609.0	778.6	785.7
16 Public Utilities	432.3	341.6	432.3	432.3
6 Railroad Equipment	99.8	75.8	95.8	97.4
17 Railroads	70.1	49.9	57.6	58.1
3 Soft Drinks	1040.4	690.3	1040.4	1021.7
11 Steel & Iron	464.9	325.4	383.5	383.5
4 Sugar	100.9	63.0	77.4	78.1
2 Sulphur	783.0	563.1..	775.9	768.9
11 TV & Electron. ('27—100)	119.4	86.8	108.2	110.1
5 Textiles	237.0	183.3	231.2	237.0H
3 Tires & Rubber	255.9	170.6	188.2	191.9
5 Tobacco	259.3	182.5	252.5	259.3H
3 Variety Stores	382.1	349.3	374.2	374.2
16 Unclassifd (49 Cl. — 100)	295.1	224.0	269.7	272.0

H—New High for 1960-1961

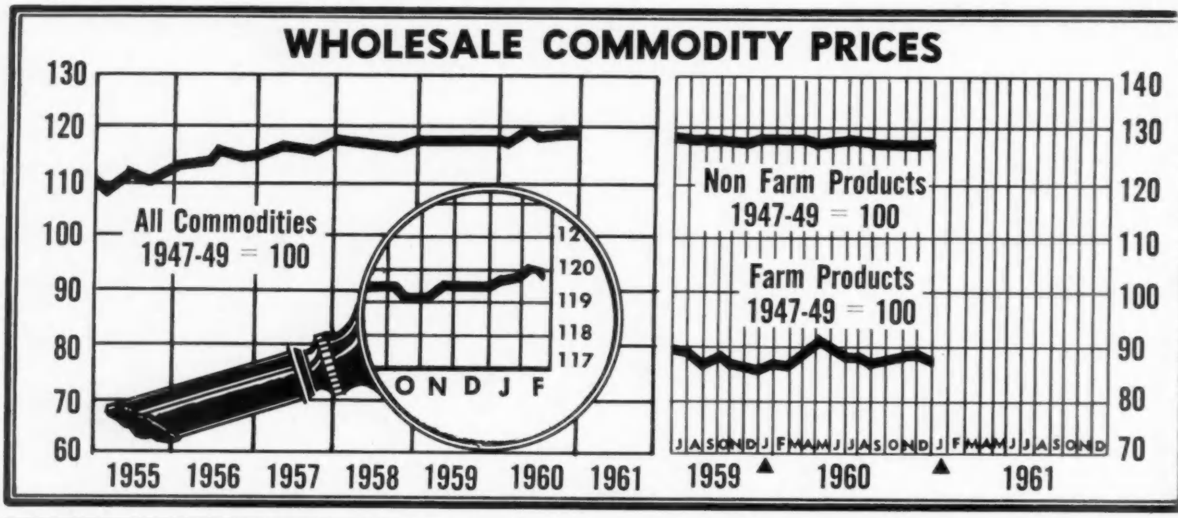
Trend of Commodities

SPOT MARKETS—Prices of raw industrial materials perked up considerably in the two weeks ending February 24, pushing the BLS index of prices of 22 raw materials to its highest level since August of last year. The industrial materials component of the index rose 1.7% with advances for seven of the 13 commodities making up this sector and only one decline. Copper scrap, steel scrap, tin, cotton, hides, print cloth and tallow all were higher while wool tops lost some ground.

The strength in individual raw materials reflects the beginning of restocking in this area by manufacturers who have allowed supplies to run down to subnormal levels and are now desirous of protecting themselves against any inflationary pressures that may develop as a result of increased Governmental spending.

FUTURES MARKETS—Futures prices developed no clear trend in the two weeks ending February 24 and individual developments dominated price movements. Feed grains reacted from previous high levels that had been reached on expectation of favorable Government moves in this field. Soybeans soared on optimistic demand/supply statistics while there were sharp price changes in several other commodities. Lard, soybeans, cotton, coffee, rubber and copper all showed gains while corn, oats, wool, cocoa and hides were lower.

Wheat futures were mixed during the fortnight, with the spot option posting a slight loss while later months advanced. There were few new developments to affect the grain. Exports remain high and the relatively small "free" supplies of the grain prevent sharp price declines.



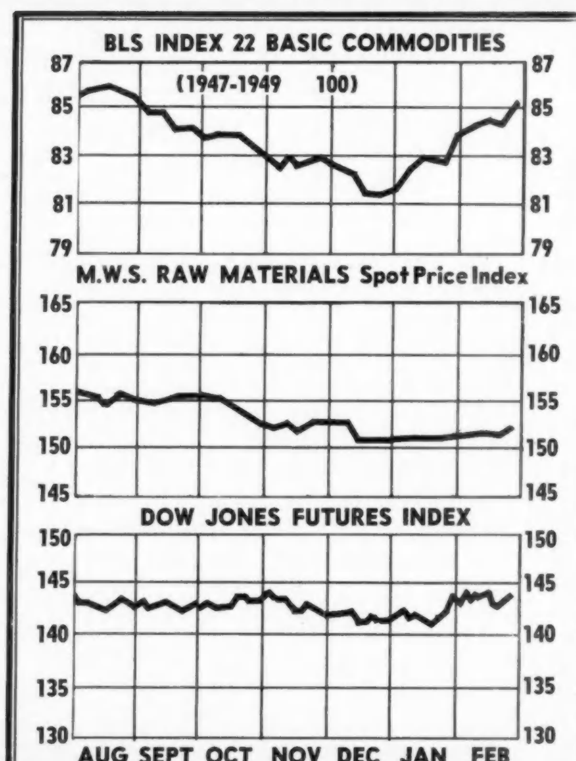
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Feb. 21	119.9	120.0	119.5	60.2
Farm Products	Feb. 21	89.3	90.7	88.7	51.0
Non-Farm Products	Feb. 21	128.2	128.2	128.7	67.0
22 Sensitive Commodities	Feb. 24	85.2	84.3	83.3	53.0
9 Foods	Feb. 24	78.9	78.9	72.4	46.5
13 Raw Ind'l. Materials	Feb. 24	89.7	88.2	91.6	58.3
5 Metals	Feb. 24	86.6	85.6	96.8	54.6
4 Textiles	Feb. 24	84.2	84.1	79.0	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	151.1	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1



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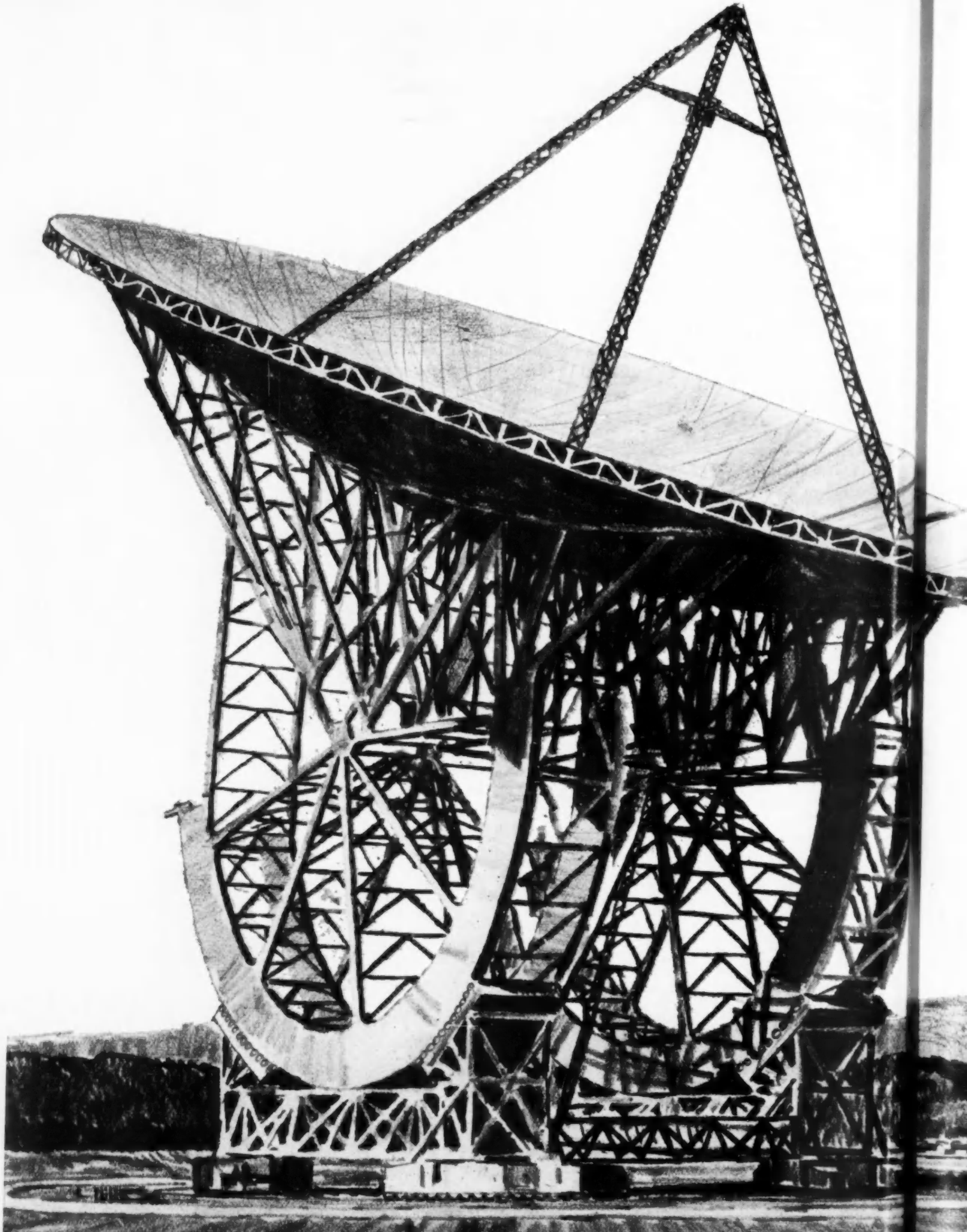


A Careful Appraisal Of President Kennedy's Tax Program

(Continued from page 645)

typical investor is the treatment of capital gains.

For many years the investment fraternity has been working hard to persuade the government that the present levy upon capital gains, a maximum of 25% upon holdings of longer than six months, is excessive, and undoubtedly many sound arguments can be cited to buttress this position. But the fact is that investors are now clearly on the defensive in this regard, and would be lucky if they could merely keep what they already have.

● **One of the principal proponents of capital gains tax changes is Stanley S. Surrey, recently a professor at Harvard Law School, now Assistant Secretary of the Treasury in charge of tax formulation. Surrey recommends the more rigid definition of capital gains, the doubling of the effective rate, and the extension of the required holding period from six months to three years.**

Such drastic measures would certainly inhibit stock trading, and would also squelch many of the complicated schemes by which the very wealthy seek to transpose ordinary income into capital gains. ● They would also probably reduce the vogue for growth stocks, and make utilities and other income issues relatively more attractive. ● For smaller investors, however, the impact of these changes might not be as heavy as it initially appears, because capital gains cannot in any case be taxed more heavily than the normal rate. This provision is not likely to be altered.

► **Another proposal with some support has been to eliminate avoidance of capital gains taxation by making the levy fall due automatically upon the death of the holder. At present, the tax can be postponed indefinitely, as the property will pass at undiminished market value (although subject, of course, to estate taxes) for legatees. As a consequence, many long-standing holdings held at low cost, particularly when the owners are already elderly, are completely frozen. The liability of such gains to ultimate taxation would be bad news for investors, or at least for their heirs, but could have a certain healthy effect upon the market in general. This would be because no advantage would accrue from avoiding sale; such stocks would become unfrozen.**

Generally, however, any changes in capital gains taxation will be to the disadvantage of all investors, and will certainly act to discourage the non-professional speculator.

TAX LOOPHOLES	Bil. $
Interest not reported	3.0
Capital gains	1.5
Dividends not reported	1.4
4% Dividend credit and $50 exc.usion	0.5
Executive fringe benefits	0.5
Interest on tax—exempt bonds	0.3
Oil depletion above proposed 15% rate	0.3
Excessive entertainment allowances	0.1
Total	$7.6

Other deductions and exemptions could also be regarded as loopholes.

Oil Depletion Change Less Likely

Any material reduction in the existing oil percentage depletion allowance by the new administration seems unlikely, even though President Kennedy emphasized this objective during the campaign.

The depletion provisions for oil well operation are too complex to discuss in any detail here. Briefly, producers are allowed to deduct 27½% of the gross income from each property, not to exceed 50% of net income. On the surface this provision, passed in 1926, looks generous, but it was designed both to recognize the fact that oil production is particularly hazardous and to provide an incentive for further development. Large companies have to, of course, offset the profits of successful wells by the unremunerated costs of the dry holes, and the records show that major oil companies have usually lagged behind manufacturing industries in their return upon invested capital.

Just the same, the oil depletion allowance has been a particular target of tax reformers — although the hard times in the producing end of the industry since 1957 have somewhat blunted their attack. Because Kennedy's election victory was clearly dependent upon the supporters of Vice President Johnson, who is not likely to be sympathetic to an oil depletion reduction, an adverse change in this law seems unlikely now. In fact, the subject is being less frequently mentioned among other tax measures proposed.

A General Tightening Up

Besides the major revisions proposed, the government is advocating, very naturally, a tightening up all around in the treatment of stock option plans, executive fringe benefits entertainment allowances and non-reporting of income. The final category represents, of course, a pure evasion, and can only be justified on the basis—which has some logic —that the income tax no longer reflects a moral obligation but is simply a game between the citizen and the collector. It is estimated that $3 billion of interest income and $1.4 billion in dividends are simply unreported by recipients every year. Although corporations and banks file information returns (similar to the familiar W2 tax withholding form) on all dividends in excess of $10 and interest in excess of $600, it is extremely difficult to match all these millions of slips with individual returns. The process would still be formidable even with the use of the most modern automatic data processing equipment.

It is accordingly being increasingly suggested that taxes should be withheld from dividends and interest payments, just as they are now from wages and salaries. Obviously, this proposal would put a heavy additional clerical burden upon corporations. At the present moment a stepped-up campaign to induce the voluntary reporting of dividends is being carried on; if this is not largely successful more stringent measures can be expected.

Executives and salesmen can also expect their returns to receive more searching scrutiny. It will be hard, however, for a government so lavish in the entertainment of foreign potentates and diplomatic personnel to justify a particularly rigid attitude toward businessmen's expense accounts. Those who pay taxes certainly deserve as much consideration as those who spend them.

(Please turn to page 674)

The Team Still in a Huddle

To borrow a metaphor from football, the Kennedy tax team is still in a huddle, whispering signals to each other, but not yet ready to disclose its next play to the spectators. We know, of course, the direction the team is moving in, but precisely what strategy they will adopt, whether they will throw the ball or run with it, remains to be seen.

But this picture is really too simple; the new tax proposals will only take shape gradually, and some conflicts could even develop within the team. Then, Congress is unlikely to accept everything the Treasury recommends. Still, it must be expected that some significant changes will be made, and most of them will not be to the liking of investors. A broad revision of the whole personal tax structure, encompassing the wiping out of all deductions, credits and exemptions and starting anew at a lower rate on total income is an extremely remote possibility.

Since the corporate tax is already close to what must be a prohibitive rate, no increase in this burden is indicated. On the contrary, the enactment of some depreciation provisions favorable to corporations is a strong probability. END

Changing Interest Rates And 1961 Finance Company Earnings

(Continued from page 658)

margin of profit is expected to rise. The average size of loans made was $454 in 1959 versus $365 in 1955 and the trend continues upward. About 54% of Household Finance Corporation common stock is owned by active or retired employees, executives, officers, directors and their families. At a recent price of 38¾ the stock provides a cash yield of a little over 3%, and is selling at 16 times earnings. Cash dividends of $1.20 per share were augmented last year by a 4% stock dividend.

Beneficial Finance Company—Although second largest among the small loan companies, as measured by total assets, Beneficial Finance Company's branch system of over 1,287 offices is the largest of any finance organization. The heaviest concentration of its branches is in California, New York, Pennsylvania, Ohio, Massachusetts and Florida. The total number of offices in Canada is 159. The Company has arrangements with 18 airlines for "fly now, pay later" plans. However, this business along with the volume of instalment sales contracts, still amounts to less than 5% of the company's total small loan volume. In 1960 Beneficial Finance purchased 47% of the common shares of Western Auto Supply Company. The latter sells auto accessories, appliances and other hardware through its own retail stores and through associate dealers with about 50% of its retail sales made on the instalment basis. Per share earnings have moved up steadily from a level of $1.52 per share in 1951 to a current level of about $2.35 per share. Dividends also have advanced from a level of 80¢ per share in 1951 to a current $1.00 plus a 2½% stock dividend paid last year. At the present market price of about 40, the stock is selling at about 17 times earnings and produces a cash yield of 2½%.

Seaboard Finance Company—This third largest small loan company has achieved better than average growth over the past several years. It now has total assets of $388 million versus $83 million in 1951 and the number of its branches has grown from 286 to over 600 in just the last five years. In the post World War II period, net income has expanded steadily for almost an eight-fold gain, but common share earnings have been held back by additional stock financing. California accounts for about 25% of the Company's business and Pennsylvania 9%. Of business volume in the fiscal year ended September 30, 1960, 66% was personal loans, 23% sales contracts and 11% credit card business. In sales contracts the Company emphasizes furniture and appliances. Its automobile financing business is relatively small. The credit card business was launched in late 1959 through a wholly-owned subsidiary, International Charge, Inc. Per share earnings for 1960 were $1.40 which compared with $1.47 in 1959 and $1.41 in 1958 and 1957. The present dividend rate is $1.00 plus 2½% in stock. Dividends have been unbroken since the stock first became publicly held in 1935. At a recent price of 26⅜ the stock is selling over 18 times earnings and yields about $3.75 on the cash dividend.

American Investment Company of Illinois—With total assets of about $260 million and about 575 offices in 40 states, American Investment is the fourth largest personal finance company in the country. In the past five years, over 200 offices were added. The bulk of the Company's business is in personal instalment loans, but American Investment also purchases sales finance paper (about 15% of receivables) which represent receivables arising from the retail sales of merchandise appliances and other items. Through a new subsidiary, the company entered the credit life insurance field in 1957. Loan volume has shown a good underlying trend and earnings have moved up steadily from a level of 93¢ per share in 1951 to a current figure of about $1.40. The dividend has also advanced from 80¢ in 1951 to a present $1.00 rate. At a price of about 21¼ American Investment Company stock is selling at close to 15 times earnings and produces a yield of approximately 4.70%. END

What Strength For Construction Industry

(Continued from page 655)

season. ● The *paint* companies, while also affected to some extent of the tone of new housing, are more heavily identified with the maintenance market. Considering the strong underlying demand here, the profits showing of **Glidden, Pittsburgh Plate Glass, Pratt & Lambert** and **Sherwin-Williams** will be aided, at least in their paint departments.

Hopes In New Administration Already Reflected In Prices

So much for the fundamental prospects facing the building stocks. Most investors are more directly concerned, of course, with early market prospects and selection of the more attractive members of the group. **The building group has already enjoyed a better-than-average rise since election day, reflecting the expectation that the new adminis-**

CLARK® EQUIPMENT COMPANY

CONDENSED FINANCIAL REPORT

DECEMBER 31 1960

The Company has mailed to all shareholders as of February 20, 1961, a preliminary report containing the financial statements for the year ended December 31, 1960. The financial report and operating particulars presented here, in condensed form, have been prepared by the Company from the more detailed financial statements certified by the company's public accountants, Price Waterhouse & Co. Copies of the preliminary report to shareholders are available upon request sent to the Secretary at the home office of the company at Buchanan, Michigan.

CLARK EQUIPMENT COMPANY

George Spatta *President*

SALES, INCOME AND OTHER PARTICULARS FOR THE CALENDAR YEARS 1960 AND 1959

	1960	1959
NET SALES	$196,768,926	$208,183,997
Income before federal income tax	$ 11,041,703	$ 24,001,804
Provision for federal income tax	4,300,000	11,600,000
NET INCOME for the year	$ 6,741,703	$ 12,401,804
CASH DIVIDENDS:		
Common Stock—$1.20 per share in 1960 and $1.125 per share in 1959 (adjusted for 2 for 1 stock split in May, 1960)	$ 5,727,826	$ 5,348,692
Preferred stock (retired in 1959)	—	14,538
TOTAL DIVIDENDS	$ 5,727,826	$ 5,363,230
EARNINGS per share of common stock outstanding (after dividends paid to preferred shareholders)	$1.41	$2.61

Balance Sheet—December 31, 1960

ASSETS

CURRENT ASSETS:		
Cash	$ 7,394,748	
Accounts receivable	21,160,930	
Inventories—at lower of cost or market	50,685,878	
Prepaid expenses	1,094,646	$ 80,336,202
INVESTMENTS		20,251,604
LAND, BUILDINGS AND EQUIPMENT	$ 58,903,219	
Less—Depreciation	27,247,342	31,655,877
		$132,243,683

LIABILITIES

CURRENT LIABILITIES		$ 31,390,541
LONG TERM NOTES PAYABLE		30,500,000
CAPITAL STOCK AND RETAINED EARNINGS:		
Common stock—par value $10 per share (4,805,902 shares)	$ 48,059,020	
Capital in excess of par value of shares	296,414	
Earnings retained and used in the business	22,121,356	
	$ 70,476,790	
Less—Cost of 11,776 shares held in treasury	123,648	70,353,142
		$132,243,683

tration would be good for the building stocks. While there has not yet been time to get the building ball rolling in any tangible way, the stocks have reflected anticipated political moves. It is quite possible, therefore, that the group may act no better than the general market in the period ahead, in the absence of any unforseen developments.

Accordingly, any commitments made in these shares at this point will probably work out best for the investor with long-run rather than short-run objectives. Good values can be found in this rather heterogeneous group, among which the following situations are worth mentioning:

General Portland Cement is the fifth largest cement producer, with its ten plants located in the Midwest, South and Southwest. Its 25.5 million barrels of capaity is quite low cost, as evidenced by the company's wide operating profit margins. Along with the rest of its industry, General had its troubles last year and share earnings fell to around the $2 level. Improvement is looked for in 1961, perhaps on the order of 10%. Considering the good location of the company's plants, long-run growth prospects appear quite favorable.

Flinkote, now a highly diversified company in the building materials field, is suffering from growing pains as well as from the common ailments of the group. Heavy cash needs, coupled with the poor earnings picture, have made the immediate cash dividend policy quite uncertain. But the company's broad line, which includes roofing, shingles, insulating board, siding, cement and prefab chimneys, offer strong participation in whatever growth lies ahead for its industry. Profits recovery should begin to take place in 1961.

Johns-Manville, the largest factor in the asbestos field, produces shingles, wallboard, insulation, roofing, floor tiles and pipe. New home construction only takes about 15% of its output, while 55% goes to the industrial market. Reflecting a fair degree of support from the industrial construction and home improvement markets, the company's operations held up much better than average in 1960. Some profit improvement seems likely in 1961, but it may only be of modest proportions. In view of Johns-Manville's good position in asbestos and the new uses which are springing up for that product, the company's shares have long-term appeal.

Marquette Cement, the ninth largest unit in its industry, serves an 18-state area bordering on the Mississippi and Illinois Rivers. The company has been able to take advantage of low-cost water transportation, which has been one of the factors behind its outstandingly good record in the cement industry. The outlook for profits in 1961 points to moderate improvement. Longer term, this low-cost producer should be able to continue the good experience of the past and it is a sound value in the building group.

Otis Elevator dominates the elevator field. Its operations are influenced not only by the trend of new building construction, but by modernization expenditures as well. Maintenance and repair contracts have an important stabilizing effect on earnings. The company has recently picked up the contract to manufacture pinsetters for Bowl-Mor, which will partially offset business which was being done with Brunswick. Prospects for 1961 point to moderate earnings improvement. Long run growth will continue to be stimulated by the same factors as in the past.

Pittsburgh Plate Glass is an extremely well diversified company, with lines extending from paint, glass, chemicals, cement, fiberglass and brushes. Of all these products, glass remains dominant at about 45% of total sales. Major markets served are building and automotive and when both are strong, as in 1955, the company is capable of generating a good level of earning power. In view of the softness in automobile production, the immediate earnings outlook is uncertain and it is possible that little or no improvement will take place in 1961.

Sherwin-Williams is the world's largest producer of paints and varnishes. Operations are highly integrated, with over 1,400 retail outlets. The particular strength of this company is its close identication with the growing home modernization market. Operation in 1960 were adversely affected by a write-off of the company's Cuban subsidiary. In the absence of this factor and considering the recent price increase of about 3% on average, profits recovery is anticipated for fiscal 1961. A new earnings peak for the year ending August 31, 1961 seems a strong possibility. With further growth in sales and earnings indicated for the long pull, these investment grade shares have considerable appeal.

Armstrong Cork manufactures a line of building materials, glass containers, caps and closures and hard floor and well coverings. The company's sales to the building market are nicely divided between new construction and home repair, thus preventing sharp changes in the corporation's fortunes. A moderate profits gain in 1961 appears possible for this well-managed company. Long-run prospects appear distinctly promising, continuing the generally favorable post-war experience. END

How Wrong Can You Be About Profit Sanctuaries And Tax Havens

(Continued from page 651)

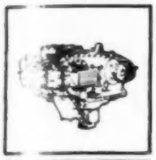
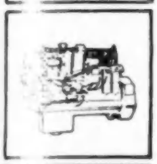
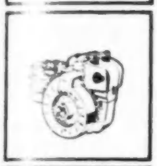
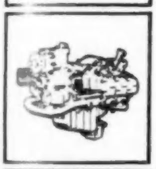
country, but bi-lingual office workers are plentiful. In fact, the only major drawback to Panama as tax haven is the political situation. Panama is a very poor country run by and for a very small oligarchy, and this situation is potentially explosive. The terms under which the United States owns and operates the Panama Canal is another source of political unrest.

Liechtenstein has an income tax ranging from three percent to twelve percent plus very minor taxes on retained earnings. Companies which do not trade in Liechtenstein itself are exempted from the income taxes and pay only a reduced capital tax. In general, Swiss corporation laws apply in Liechtenstein.

Luxembourg offers most of the advantages of Liechtenstein, with the added advantage of being part of the European Economic Community (The Common Market). Thus a subsidiary established there will reap the advantages of a much-widened market. Nevertheless, a Luxembourg holding

facts and figures

FROM THE 1960 ANNUAL REPORT

HIGHLIGHTS

Despite adverse business conditions, Continental Motors Corporation and consolidated subsidiaries, Gray Marine Motor Company and Wisconsin Motor Corporation, had net sales of $138,094,193 in the year ended October 31, 1960, only slightly below the 1959 sales of $139,946,152, and well above the level of each of the previous three years.

Reflecting intense competition in all markets and heavy development and start-up expenses on new models during the year, net income for the fiscal year 1960 amounted to $1,417,759, compared with $2,637,475 a year earlier.

Important reductions in costs are being effected through the installation of new, modern production machinery. Controls are being improved and accelerated with automated data-processing equipment for certain office procedures.

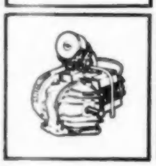
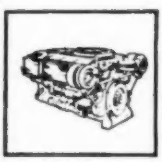
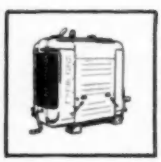
A cross-licensing agreement covering aircraft piston engines has been signed with Rolls-Royce Limited, of England.

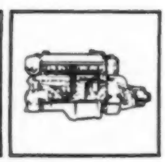
Substantial progress was made in research and development, and a number of new products are close to production scheduling. These include the LDS-427 Hyper-cycle multi-fuel compression-ignition engine for 2½-ton military trucks, and a new compact inboard marine engine with an outboard propulsion assembly.

Branch and distributor-dealer organizations were strengthened during 1960, especially in the growingly important West Coast market. Training programs for distributors and dealers were expanded.

Foreign operations continued at a good level during the year.

With a number of promising new models, expanded marketing activities and improved plant and equipment, Continental will push forward vigorously to increase its share of the market as general business begins to improve. Research and development projects currently under way will require substantial expenditures, but should lead to further growth in the years ahead.



STATISTICS

Fiscal Years Ended Oct. 31	1960	1959	1958	1957	1956
Engine output (horsepower)	10,743,003	12,129,875	10,231,837	10,549,655	10,783,043
Net sales	$138,094,193	$139,946,152	$131,415,279	$135,610,890	$125,116,269
Net earnings	$1,417,759	$2,637,475	$3,536,528	$3,583,301	$1,604,924
Net earnings per common share	$0.43	$0.80	$1.07	$1.09	$0.49
Dividends per share	$0.60	$0.60	$0.55	$0.35	$0.25
Current assets	$56,700,008	$59,657,338	$56,101,397	$64,454,365	$59,262,735
Current liabilities	$22,912,690	$25,005,195	$21,289,109	$30,598,007	$28,304,638
Net working capital	$33,787,318	$34,652,143	$34,812,288	$33,856,358	$30,958,097
Ratio of current assets to current liabilities	2.5 to 1	2.4 to 1	2.6 to 1	2.1 to 1	2.1 to 1
Long-term debt	$1,640,000	$2,000,000	$2,355,000	$2,480,000	$2,760,000
Property, plant, and equipment (net)	$16,140,139	$16,392,626	$15,733,097	$16,223,841	$16,547,581
Stockholders' equity	$49,374,586	$49,936,827	$49,279,352	$47,557,824	$45,129,523
Book value per common share	$14.96	$15.13	$14.93	$14.41	$13.68

Continental Motors Corporation

MUSKEGON, MICHIGAN

company may not engage in any trading activity whatever, so that another company may be necessary to take care of the actual business activities.

Switzerland is probably the most attractive location in Europe for U.S. companies looking for a tax haven, with the important proviso that it is not part of the Common Market (it is, however, part of the European Free Trade Area). Each of the Swiss cantons has its own corporate laws, so that the company, by shopping around, can find the one which most nearly fits its needs. None of the three European countries mentioned presents any problem as far as political or economic stability is concerned.

Hong Kong — For companies with extensive operations in the Far East, Hong Kong is the ideal tax haven, with unexcelled shipping and banking facilities and complete political and economic stability. Foreign-source income is exempt from income taxes, and the tax rate on domestic income is low. The shadow of Communist China, however, continues to hover menacingly over the island, and despite brave statements that Hong Kong is being made defensible, there is no doubt that whenever the Communists want to take it, they can.

Other countries which are occasionally used as tax havens, but which present various difficulties, of lesser benefits, are **Belgium, Canada, Jamaica, Liberia,** the **Netherlands,** The **Netherlands Antilles, Puerto Rico,** and **Venezuela.**

In Sum

If the profits remitted from operations abroad to tax haven corporations are made subject to U.S. tax, and assuming that such a regulation is upheld by the courts, what would the results be, from the standpoint of the U.S. government, the American taxpayer, and the foreign countries in which our companies are operating?

►In the first place, once these earnings are taxed, tax haven operations no longer have any rationale whatever. They will be closed down, and expansion abroad will be either curtailed or such expansion will be provided for with dollars sent from the parent company in the United States. This will have the result of both reducing the long-term tax receipts of the U.S. Treasury, and of increasing the outflow of gold from the United States. It will also deprive foreign nations of income, and will reduce their rate of development, thereby creating a demand for even greater U.S. government aid, a further source of drain on gold.

In other words, such a move, presented as another of the "social equalization" measures so dear to the hearts of the planners, will have precisely the opposite effects from those presumably desired by the Kennedy administration. Unfortunately this same divorce of ends and means is to be found throughout the program for the New Frontier. It may be that we can look forward to four years of vigorous government. But will it be four years of vigorously following academic theory leading to the wrong road? END

LPG — Bright Spot In The Oil Picture

(Continued from page 661)

exist. Because of the financial leverage involved in these acquisitions, and the relatively low price/earnings multiple they are generally consummated at (in contrast to the considerable higher levels at which the market tends to capitalize the earnings of the larger publicly-held companies) the expanding multi-million dollar concerns experience a sharp boost in per share earnings from these transactions.

Improved Storage and Transport

New methods of transport and storage are coming into wider use, creating a new phase of earnings growth for the larger concerns. Its effects are best illustrated by **Suburban Propane's** 1960 earnings increase after years of stable profits. The most important factor contributing to this improvement has been the development of underground storage facilities, such as depleted gas reservoirs, mined caverns and washed out salt mines. Their use reduces operating costs in several ways: storage construction costs per barrel of capacity are usually less than 25% the amount required for above ground steel storage tanks, and maintenance

costs are also considerably lower. Their greatest economy, however, is attributed to the flexibility they provide by allowing companies to purchase LPG during summer months when a low level of consumption results in lower prices than those prevailing during the high demand winter season. Less expensive and larger storage facilities also insure the availability of supplies during peak consumption periods.

Looking to the Future

As indicated by the economics and past record of the industry, and the improving logistics of LPG distribution, storage and transportation, LPG will most likely continue to be hydrocarbon's bright spot for many years ahead. The following is a brief summary of companies expected to share in this growth.

Suburban Gas: Serving almost 80,000 customers in ten western states, Georgia and British Columbia, entry into Indiana, Ohio and Kentucky will be provided by the forthcoming acquisition of Rural Natural Gas. Longer term plans call for the establishment of markets in almost every state, as well as extensive overseas distribution. Almost 60 concerns have been acquired since the company's inception, and per share earnings have more than tripled during the last four years alone. Management is well regarded, and is expected to continue to provide favorable results in the future.

Tropical Gas: A leading distributor of LPG serving the Florida, Caribbean and South and Central American markets, sales have quadrupled and earnings increased tenfold since operations commenced in 1955. Intervention of "Tropigas" Cuban activities in mid-1960 did not adversely affect the company's earnings as some had feared. With 50% of profits now coming from Puerto Rico and Florida, and no one foreign area by itself of particular importance, vulnerability to future political disturbances south of the border appears limited. Further insulation will be provided by domestic expansion beyond the one U.S. state currently served.

Mid-America Pipeline: Formed in 1960, the company transports LPG via pipeline from sources in New Mexico, Texas and Oklahoma to the Midwest. Originally, it was expected to require several years of operation before profits would be generated for common shareholders. As step-up in throughput during the company's first quarter of operation (deliveries commenced in December) arising from unusually cold weather and an increase in fuel demanded could make Mid-America a profitable venture right from the start. Future growth is expected to parallel that of LPG demand.

California Liquid Gas: One of the three largest LPG producers on the West Coast, growth to date has been rapid. Per share earnings have increased at an average compounded annual rate of over 20% during the last five years as a result of both acquisitions and growing LPG demand. Expansion of population in suburban and ranching sectors of markets served, point to a continuation of this performance.

Suburban Propane Gas: Largest LPG distributor in the nation, Suburban serves about half a million customers along the Eastern Seaboard and in Ohio, Indiana and Kentucky. During the early fifties, the company's per share earnings reached more or less of a plateau, with sales continuing to increase each year, but both pre-tax and post-tax margins declining, providing an offset against the annual sales increment. Sales continued to rise each year of the second half of the decade, with per share earnings declining gradually from $1.70 in 1955 to $1.41 in 1959. Lower gas and transportation costs, a change in depreciation policy, and more efficient operations brought about a reversal of this trend in 1960 and a rise of earnings of more than 20%. It is expected that profits will continue to rise during the years ahead, although perhaps at a somewhat less dynamic rate than those of other distributors serving areas where growth of LPG demand is more clearly defined.

Blossman Hydratane: Although operations were at one time confined to the state of Louisiana, Blossman has expanded the scope of its activity in recent years and now also serves markets in Mississippi, Georgia and Florida. This expansion has resulted in a somewhat erratic earnings performance, although the trend has been upward. Capital expenditures in 1960 alone were three and a half

times as great as that year's record earnings, indicating the construction of a strong base for future improvement of profits. Past experience shows that there is generally a three year lag between the time Blossman starts a new operation, and the time it turns profitable. Past investments in enlarging its marketing area began to make significant contributions to earnings in 1960, and a more stable record of earnings growth is expected during the years ahead. The stock is speculative.

Petrolane Gas Service: Petrolane operates 159 marketing plants serving eleven western states, including Alaska. Since 1953 sales have increased almost 400%, per share earnings almost 300% and dividends per share about 250%. During 1960 nine additional LPG outlets were purchased in line with Petrolane's policy of expanding both internally and via the acquisition route. Earnings progress over the longer term will most likely continue to exceed that of the industry in general, in view of the company's well-entrenched position in desirable markets. END

Problem Of The '60's Automation — Unemployment — And The Abundant Life

(Continued from page 638)

stifle us.

Temporarily, the market may be saturated with mass production goods. But, if we know anything at all about the American consumer, we know that there is an insatiable demand for new products that really are *new* products.

Selling — The Lost Art

Industry cannot be held entirely accountable, however, for the slackening in economic growth that is showing up in rising unemployment and in faltering sales volume. During World War II and the immediate postwar period, when goods of practically all kinds were scarce, American retailers lost the art of selling. Many of them never have regained it.

The current concept in retailing is that consumers "buy" goods, whereas the former concept was that consumers were "sold" goods.

New devices such as "motivation research", "impulse buying", redesign of packages, the use of color to induce consumers to buy, and so on, have been cited as valuable selling aids. These may have been successful for a while but, like any sort of dope, they tend to lose their efficacy with the passage of time. It is a real question whether housewives, whose mothers and even grandmothers before them used the same sink and bathtub cleaner with good results, are any happier because the old familiar package has been changed. Or whether redesigning a package of cigarettes really helps increase the sales of that particular brand.

The public has undoubtedly developed considerable skepticism over all the exaggerated claims about this or that product that is spouted in the television commercials every twenty minutes.

The Consumer Has It

The current theory of manufacturers and retailers is that consumers should spend 100% or more of their "disposable income" and that consumer interest can be kept whipped up by advertising. The "image" of the product is held to be all-important; the consumer must be led to believe that it is superior even though it may not really be any better than brand X.

But the theory is not working. Consumer income remains near an all-time high, and yet sales are slipping. Despite all of the exhortations to buy, consumers are tending to save an ever larger percentage of their income. Meanwhile, the factory wheels slow down and unemployment mounts.

Convincing reasons for this increased propensity to save, such as the high and rising costs of higher education for the youngsters, may be cited. At the same time, there is good reason to believe that much of the increase in consumer saving is the direct result of the failure of manufacturers to turn out truly new products that people want and of the failure of retailers to really "sell" their goods rather than wait for people to "buy" them.

If we are in a "new era", with the customer much more choosy than at any time in the past 1[illegible] to adapt itself to the consumer. Otherwise, it is all too likely that comparatively high level unemployment may become chronic.

No Perfect Solution — But We We Can Make A Start

***Government Assistance* — President Kennedy's proposal to extend unemployment compensation from 26 to 39 weeks is merely a stop-gap, unless it is tied to a plan to put these people to work at the same time on the various projects on which the government is spending or planning to spend billions of dollars.**

► Regions of employment are to be found in declared disaster areas, where the unemployed can immediately be put to work. This will alleviate conditions and start reconstruction that might otherwise drag along and continue the existing misery for too long a time — and to rehabilitate areas

seriously damaged through storm and flood in recent months.

The unemployed workers can be used also on long term projects on which the government is spending huge sums to construct dams, reservoirs and improve our waterways. ● And plans can be made to use the unemployed on the proposed reclamation of waste lands — the contemplated reforestation program — creation of public park facilities — to cite but a few of the projects that can utilize our idle labor force. There is actually no lack of work in this country.

► Much can be accomplished both financially and spiritually through the development of our national shrines and the restoration of our historic monuments. We need more "Williamsburgs" to protect our heritage, to enable our population to know more about our glorius past, and to make them more proud to be Americans. This can be made into a profitable operation, for it would encourage tourism among our own citizens and stimulate coast-to-coast travel by visitors from abroad.

► We could use unemployed workers, now on relief, in an effort to dramatize our natural wonders — developing intriguing and enticing camping sites and recreation facilties. This would be of absorbing interest to our growing young boys and girls, our young men and young women, and would create an appreciation and a love for the scenic beauty of our country, which is unsurpassed anywhere in the world.

Because such programs can be turned into sound enterprise, government loans can be made for this purpose. It could be made self-supporting and profitable by careful planning in collaboration between business and government.

What Business Can Do — Having cut labor to the bone, the retail industry can now act to relieve unemployment by increasing the number of employed in many establishments which are not of a self-service type, where right now one can walk in and out in complete solitude. One finds few sales people in evidence, and those that are, seem for the most part completely uninterested. Apparently they have been trained to assume that this is part of a daily constitutional, and one doesn't want to be interrupted!

● Another great source of unemployment can be plugged by refusing to employ, as part-time workers, those who are already holding down full-time jobs. This would give another worker a chance to earn a living. **(We wonder to what extent the unemployment situation is distorted by the fact that large numbers of people are holding down two jobs, so that unemployment figures do not accurately reflect the true situation.)**

● Educating and training people in new and different jobs of a better grade can be a factor in eliminating unemployment. It is a fact today that there is a shortage of men having greater industrial skills, and among executives at various administrative levels.

We cite but a few of the avenues open that should put people to work and minimize inflation. There are many more areas, and we hope the above will set in motion the kind of constructive thinking that is needed today to put the nation back to work during this period of readjustment.

The worst thing that can happen would be to keep able-bodied unemployed on some kind of dole—thus both wasting their services and encouraging their gradual demoralization. Certainly, a little imagination can devise useful tasks for temporarily unemployed workers. And union leadership should encourage those displaced by technological change to show enough flexibility toward accepting the retraining necessary to make a new start in another field. END

For Profit And Income

(Continued from page 663)

even over an extended period. On the other hand, conservative investment in stable-growth stocks has paid larger rewards than many people realize. A stable-growth stock is that of a company with growing earnings in fields largely or wholly immune to business recessions. Examples are most numerous among utilities. For comparison, measuring from its 1956 top to date, the Dow industrial average shows a net rise of about 26%, against about 52% over the same period by the utility average. The latter has scored some net gain each year since 1948. Taking only the last four years or so, many individual utilities today show net gains from three to more than four times as large as the industrial average.

Others

As against the 26% by which "the Dow" is now above its 1956 top, here are some net gains over the same period by some conservative industrial stocks: American Chicle 164%, American Home Products 183%, American Tobacco 80%, Beatrice Foods 110%, Beneficial Finance 73%, Corn Products 167%, General Foods 208%, Heinz 161%, Hershey Chocolate 156%, Kellogg 175%, Coca-Cola 123%, Procter & Gamble 173%, Quaker Oats 100%, Reynolds Tobacco 268% and Sterling Drug 151%. Mind you, these are not figured from any lows, but from levels at which the industrial list was at an historic high from which subsequent net rise has been rather modest, considering all the hoop-

la about "the market". Many other conservative stocks have risen less sharply but at least double the rate for the industrial average in these comparisons.

Another Look

In the December 31 issue, Bobby Brooks was recommended here at 32. It is now around 45 and looks high enough. Take profits. In the same issue: Freeport Sulphur at 29, now 31; and Drewrys at 30, now up to 36. Present advice: stay with them.

What Now?

On the heaviest trading volume in years, there has been much churning around in stocks, with relatively restricted over-all progress since early in February. The public appears heavily sold—and over-sold—on the idea that this is a roaring bull market with fat profits yet to come. Well, let's see what happens for a time. At the moment, we are deferring any new buying suggestions here.

Fund Sales

Mutual fund business reflects the optimistic public mood. Sales of shares in January jumped to $243 million, from December's $171 million. While redemptions also rose, net sales of $143 million were up sharply from the fourth-quarter average and were at the highest level since February, 1960, when the figure was $149 million. END

★ ★ ★ Book Reviews ★ ★ ★

India Today

By FRANK MORAES

Twelve years constitute a small span in the life of a country 5000 years old. Yet there have been many changes in India since independence was proclaimed on August 15, 1947. This present book is written against the background of Indian social, religious, and political history, but the focus is on India since 1947.

India Today is a realistic appraisal of contemporary India and all the complexities that have grown out of its long history, the backwardness of its economy, the rigidity of its archaic social structure, and the ignorance of its people. In an excellent evaluation of Gandhi, Moraes, while appreciative of his character, points out some of his anachronistic approaches to India's problems and the heritage they have left. The section on the turbulent and, until recently, Communist-controlled state of Kerala analyzes the facts behind the headlines. Readers will also appreciate the honest evaluation of Nehru and the other leaders; Moraes does not minimize the difficulty of their task nor does he ascribe to them super-human qualities.

There are few Indians or foreigners who are more articulate on the subject of the problems and prospects of contemporary India than Frank Moraes. He combines careful scholarship with the perceptivity of a trained journalist. Presented in terms which the Western mind can understand, this book is an invaluable contribution to the understanding of India today.

Macmillan $4.00

Financial Post Survey of Mines 1961

Canadian mining is ready for a new wave of growth.

A consolidation period has left the industry in a strong financial position, ready to start new expansion programs, says the 1961 edition of FP's **Survey of Mines.**

New mines, new plants and new exploration projects are ahead.

The zinc-rich Mattagami camp in northwestern Quebec, columbium in southern Quebec, asbestos in Newfoundland, base metals in New Brunswick, copper in British Columbia, tungsten in the Yukon, and potash in Saskatchewan are among the known projects which will take over the next growth phase. Several major projects are to be completed in 1961.

This 366-page basic reference book on Canadian mining is in its 35th annual edition.

An extra feature is a 28-page map section covering holdings in main Canadian mineral areas.

The Survey is the most comprehensive book in its field, covering details on thousands of small companies as well as all active mining organizations.

Statistical material includes an eight-year price range of stock prices, mineral production, metal prices, stock exchange commission rates and milling plants.

Financial Post, Toronto $4.00

Protracted Conflict

By
ROBERT STRAUSZ-HUPE
WILLIAM R. KINTNER
JAMES E. DOUGHERTY
ALVIN J. COTTRELL

- What are the theory and historical basis of Communist strategy–
- What principles of strategy have the Communists used since World War II?
- How specifically does Communist strategy operate?
- How and where can the U.S. seize the strategic initiative?

These are some of the questions this important book examines and answers. *Protracted Conflict* is the first analysis of the Communist threat in terms of strategy and tactics. The authors maintain that we are in a historical revolution embracing all countries and societies—a world revolution which the Communists believe they are destined to lead and transform into a new world order. Conflict is a basic element of Communist doctrine and only by understanding the principles and methods of the strategy of protracted conflict will we be able to combat it effectively and seize the strategic initiative.

The strategy of protracted conflict is the real key to Communist operations both before and after World War II. This strategy operates continuously on all levels—political, economic, psychological, military, cultural. In this book, four foreign policy experts describe and analyze specific methods of strategy and tactics used by the Communists since World War II—in Western Europe, Korea, Indochina, the Middle East and elsewhere. Actual instances and situations show in clear perspective the techniques of the strategy of protracted conflict. The historical background of today's Communist operations is given to show the essential sameness and continuity of their techniques, attitudes, and strategic approach. Finally, the authors suggest how the United States and the West can counter this strategy and dominate the world revolution.

Conceived and developed by the Foreign Policy Research Institute at the University of Pennsylvania, and based on extensive research, world trips, and interviews. *Protracted Conflict* is a challenging and convincing new approach to U.S. foreign policy, Communist aggression, and the whole spectrum of today's global conflict.

Harper $3.95

The New Africa

BY ALLEN AND ATTILIO GATTI

This is the story of Africa's awakening, of new nations and federations formed almost overnight. The events discussed here will be a basis for more changes that may take place within the next few years.

We watch the new Africa with sympathetic understanding. We know that the evolving governments may take many forms, and that each new country in Africa has to find its own way.

Ellen and Attilio Gatti have been on many expeditions to Africa and know it from first-hand experience *Here is Africa* by these authors has proved to be most popular and useful, but it was time for revision. So numerous have been the changes in that continent, however, that they found themselves writing an entirely new book instead of revising the first one. The photographs give a view of the new Africa as well as its more primitive side of life.

Scribner's $5.95

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OUR January 17, 1961 audit of all 22 stocks held in our open positions shows 684 points profit over and above any losses, compared with 588 points a month before.

Of special interest are *gains scored* by issues we retained since the start of last year despite the *decline* from the January 5, American Chicle, then 54 is now 75, up 21. American Tobacco, than 105, has split 2-for-1 and is now 68 (136 for old shares), up 21. Deere advanced from 46¾ to 56½ up 9¾. Reynolds Tobacco, then 58½ is now 93⅝ up 35⅛.

Those Forecast stocks which lost some ground in sympathy with general market weakness are all thoroughly sound with strong recuperative qualities and include long-term backlog issues on which sizeable gains have accrued.

We have every confidence that the impressive gains our advices have built up will be greatly increased when we give the buying signal for rare new opportunities as they emerge in 1961.

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Pages 1 to 56 September 24, 1960

Pages 57 to 108 October 8,

Pages 109 to 160 October 22,

Pages 161 to 212 November 5,

Pages 213 to 264 November 19,

Pages 265 to 320 December 3,

Pages 321 to 368 December 17,

Pages 369 to 412 December 31

Pages 413 to 476 January 14, 1961

Pages 477 to 532 January 28, 1961

Pages 533 to 580 February 11,

Pages 581 to 628 February 25,

Pages 629 to 684 March 11,

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PROFITABLE 1961

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★ **Some investors who test their lists honestly find that they are holding securities for unsound reasons: (1) because they dislike to take losses even in weak issues; (2) because they like to see issues on their list which show a profit, even though the future has been discounted; (3) because they are sentimentally attached to inherited securities, or shares of a company for which they work; (4) because they feel that they might have difficulty in deciding upon a replacement; (5) because they are worried about taxes resulting from security changes; (6) *procrastination.***

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INVESTMENT MANAGEMENT SERVICE

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120 WALL STREET **NEW YORK 5, N. Y.**

NEWS ON TEXACO PROGRESS

Charter member of the "globe-spanners"

YESTERDAY—Texaco began serving aviation, long before air travel was a way of life. Captain Frank Hawks, famed early flier, was Texaco's aviation specialist for many years. In 1930 he spanned the continent in Texaco No. 13. Time: 12 hours, 25 minutes, 3 seconds!

TODAY—Airline jets span the United States in less than five hours...many flying on Texaco fuels and lubricants. In fact, since the beginning of commercial aviation, millions of scheduled airline miles have been flown on Texaco aviation products.

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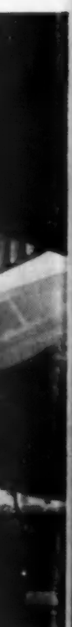

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